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CARIBBEAN BASIN ECONOMIC RECOVERY EXPANSION ACT OF 1987

HEARINGS

BEFORE THE

SUBCOMMITTEE ON TRADE

OF THE

COMMITTEE ON WAYS AND MEANS
HOUSE OF REPRESENTATIVES

ONE HUNDREDTH CONGRESS

FIRST AND SECOND SESSIONS

ON

H.R. 3101

TO IMPROVE THE OPERATION OF THE CARIBBEAN BASIN ECONOMIC RECOVERY ACT

DECEMBER 14, 1987; MARCH 28, AND SEPTEMBER 15, 1988

Serial 100-64

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[1] Died June 21, 1988.
[2] Elected to committee July 7, 1988.
[3] Resigned subcommittee July 15, 1988.
[4] Appointed to subcommittee July 15, 1988.

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CARIBBEAN BASIN ECONOMIC RECOVERY EXPANSION ACT OF 1987

MONDAY, DECEMBER 14, 1987

House of Representatives,
Committee on Ways and Means,
Subcommittee on Trade,
Washington, DC.

The subcommittee met, pursuant to call, at 11 a.m., in room 1100, Longworth House Office Building, Hon. Sam M. Gibbons (chairman of the subcommittee) presiding.

[The press release announcing the hearing and a copy of the bill, H.R. 3101, follow:]

FOR IMMEDIATE RELEASE
TUESDAY, NOVEMBER 24, 1987

SUBCOMMITTEE ON TRADE #13
COMMITTEE ON WAYS AND MEANS
U.S. HOUSE OF REPRESENTATIVES
1102 LONGWORTH HOUSE OFFICE BLDG.
WASHINGTON, D.C. 20515
TELEPHONE: (202) 225-3625

THE HONORABLE SAM M. GIBBONS (D., FLA.), CHAIRMAN, SUBCOMMITTEE ON TRADE, COMMITTEE ON WAYS AND MEANS, U.S. HOUSE OF REPRESENTATIVES, ANNOUNCES PUBLIC HEARINGS ON H.R. 3101, THE CARIBBEAN BASIN ECONOMIC RECOVERY EXPANSION ACT OF 1987

The Honorable Sam M. Gibbons (D., Fla.), Chairman of the Subcommittee on Trade, Committee on Ways and Means, U.S. House of Representatives, today announced that the Subcommittee on Trade will begin public hearings on H.R. 3101, the Caribbean Basin Economic Recovery Expansion Act of 1987, on Monday, December 14, 1987, in the main Committee hearing room, 1100 Longworth House Office Building, beginning at 11:00 a.m. It is anticipated that it may be necessary to schedule additional hearing days early next year on this bill in order to accommodate all interested parties.

H.R. 3101 would extend and expand the Caribbean Basin Economic Recovery Act of 1983, commonly referred to as the Caribbean Basin Initiative or "CBI". The bill would expand the current duty-free treatment of exports from the region provided for in that Act and extend the CBI for an additional 12 years beyond its original 1995 expiration date. The bill incorporates many of the recommendations to improve the effectiveness of the CBI from the Subcommittee on Oversight's year-long investigation of the program. Among the key elements of the bill are provisions to --

1) create a special rule of origin for Eastern Caribbean products;

2) allow limited duty-free treatment (and in some cases quota-free treatment) under prescribed circumstances for articles which are currently exempt from the program;

3) increase the tourist exemption for U.S. citizens returning from CBI beneficiary countries and U.S. insular possessions;

4) restore sugar import quotas for CBI beneficiaries to the levels existing when the CBI program went into effect;

5) add a "grandfather" clause relating to the tariff treatment of ethanol for certain CBI-owned ethanol facilities; and

6) require a separate injury determination for CBI beneficiary countries in countervailing duty and antidumping cases.

The fundamental purpose of H.R. 3101 is to improve the effectiveness of the CBI program in order to build confidence in the region, create business certainty, and provide a long-term investment climate which will lead to economic prosperity and political stability in the region. Witnesses are invited not only to comment on the provisions of H.R. 3101, but also to offer other suggestions which would accomplish this objective.

(MORE)

DETAILS FOR SUBMISSION OF REQUESTS TO BE HEARD:

Requests to be heard must be made by telephone to Harriett Lawler [telephone (202) 225-1721] by close of business Tuesday, December 8, 1987. The telephone request should be followed by a formal written request to Robert J. Leonard, Chief Counsel, Committee on Ways and Means, U.S. House of Representatives, Room 1102 Longworth House Office Building, Washington, D.C. 20515. The Subcommittee staff will notify by telephone those scheduled to appear as soon as possible after the filing deadline. Any questions concerning a scheduled appearance should be directed to the Subcommittee office [(202) 225-3943].

In view of the limited time available to hear witnesses, the Subcommittee may not be able to accommodate all requests to be heard. Those persons and organizations not scheduled for an oral appearance are encouraged to submit written statements for the record of the hearing. All persons requesting to be heard, whether they are scheduled for oral testimony or not, will be notified as soon as possible after the filing deadlines.

Witnesses scheduled to present oral testimony are requested to briefly summarize their written statements. The full statement will be included in the printed record.

In order to assure the most productive use of the limited amount of time available to question hearing witnesses, witnesses scheduled to appear before the Subcommittee are required to submit 150 copies of their prepared statement to the Subcommittee on Trade office, room 1136 Longworth House Office Building, at least 24 hours, in advance of their scheduled appearance. Failure to do so may result in the witness being denied the opportunity to testify in person.

WRITTEN STATEMENTS IN LIEU OF PERSONAL APPEARANCE:

Persons submitting a written statement in lieu of a personal appearance should submit six (6) copies of their statement by the close of business Wednesday, December 30, 1987, to Robert J. Leonard, Chief Counsel, Committee on Ways and Means, room 1102 Longworth House Office Building, Washington, D.C. 20515. If those filing a written statement for the record of the printed hearings wish to have their statement distributed to the press and the interested public at the hearings, they may provide 75 additional copies for this purpose to the Subcommittee office, room 1136 Longworth House Office Building, during the course of the public hearings.

SEE FORMATTING REQUIREMENTS BELOW:

COMMITTEE ON WAYS AND MEANS FORMATTING REQUIREMENTS FOR PRINTING OF HEARING STATEMENTS. WRITTEN COMMENTS AND EXHIBITS

Each statement presented for printing to the Committee by a witness. any written statement or exhibit submitted for the printed record or any written comments in response to a request for written comments must conform to the guidelines listed below. Any statement or exhibit not in compliance with these guidelines will **not** be printed. but will be maintained in the Committee files for review and use by the Committee.

1. All statements and any accompanying exhibits for printing must be typed in single space on legal-size paper and may not exceed a total of 10 pages.
2. Copies of whole documents submitted as exhibit material will not be accepted for printing. Instead. exhibit material should be referenced and quoted or paraphrased. All exhibit material not meeting these specifications will be maintained in the Committee files for review and use by the Committee.
3. Statements must contain the name and capacity in which the witness will appear or. for written comments. the name and capacity of the person submitting the statement. as well as any clients or persons. or any organization for whom the witness appears or for whom the statement is submitted.
4. A supplemental sheet must accompany each statement listing the name. full address. a telephone number where the witness or the designated representative may be reached and a topical outline or summary of the comments and recommendations in the full statement. This supplemental sheet will not be included in the printed record.

The above restrictions and limitations apply only to material being submitted for printing. Statements and exhibits or supplementary material submitted solely for distribution to the Members. the press and public during the course of a public hearing. may be submitted in other forms.

100TH CONGRESS
1ST SESSION

H. R. 3101

To improve the operation of the Caribbean Basin Economic Recovery Act.

IN THE HOUSE OF REPRESENTATIVES

AUGUST 5, 1987

Mr. GIBBONS (for himself, Mr. PICKLE, Mr. RANGEL, Mr. FORD of Tennessee, Mr. DOWNEY of New York, Mr. GUARINI, Mr. MATSUI, Mr. ANTHONY, Mr. VANDER JAGT, Mr. CRANE, Mr. FRENZEL, Mr. SCHULZE, Mr. FASCELL, Mr. BEREUTER, Mr. TOWNS, Mr. FAUNTROY, Mr. GRAY of Pennsylvania, Mr. DE LUGO, Mr. SAVAGE, Mr. INHOFE, Mr. RODINO, Mr. MILLER of Washington, Mr. LAGOMARSINO, Mr. CROCKETT, Mr. MFUME, Mr. PURSELL, and Mr. DYMALLY) introduced the following bill; which was referred to the Committee on Ways and Means

OCTOBER 15, 1987

Additional sponsors: Mr. SMITH of Florida, Mr. ALEXANDER, Mr. SHUMWAY, Mr. BERMAN, Mr. OWENS of New York, Mr. ESPY, and Mr. BLAZ

A BILL

To improve the operation of the Caribbean Basin Economic Recovery Act.

Be it enacted by the Senate and House of Representatives of the United States of America in Congress assembled,

SECTION 1. SHORT TITLE.

This Act may be cited as the "Caribbean Basin Economic Recovery Expansion Act of 1987".

SEC. 2. CONGRESSIONAL FINDINGS.

The Congress finds that—

(1) a stable political and economic climate in the Caribbean region is necessary for the development of the countries in that region and for the security and economic interests of the United States;

(2) the Caribbean Basin Economic Recovery Act was enacted in 1983 to assist in the achievement of such a climate by stimulating the development of the export potential of the region; and

(3) the commitment of the United States to the successful development of the region, as evidenced by enactment of the Caribbean Basin Economic Recovery Act, should be reaffirmed, and further strengthened, by amending that Act to improve its operation.

SEC. 3. UNITED STATES CONTENT OF BENEFICIARY COUNTRY PRODUCTS.

Section 213(a)(1) of the Caribbean Basin Economic Recovery Act (19 U.S.C. 2703(a)(1)) is amended by striking out the last sentence and inserting the following: "If the cost or value of materials produced in the customs territory of the United States (other than the Commonwealth of Puerto Rico) is included with respect to an article to which this paragraph applies, an amount not to exceed—

"(i) 25 percent, if the article is the product of an East Caribbean beneficiary country; or "(ii) 15 percent, if the article is the product of a beneficiary country other than an East Caribbean beneficiary country;

of the appraised value of the article at the time it is entered that is attributed to such United States cost or value may be applied toward determining the percentage referred to in subparagraph (B). For purposes of the preceding sentence, each of the following, during any period when designated as a beneficiary country under this subtitle, shall be considered as an East Caribbean beneficiary country: Antigua and Barbuda, Anguilla, Aruba, the British Virgin Islands, the Cayman Islands, Dominica, Grenada, Montserrat, Netherlands-Antilles, St. Christopher-Nevis, St. Lucia, St. Vincent and the Grenadines, and the Turks and Caicos Islands.".

SEC. 4. TREATMENT OF EXEMPT ARTICLES.

(a) IN GENERAL.—The Caribbean Basin Recovery Act is amended by inserting after section 213 the following new section:

"SEC. 213A. SPECIAL CATEGORY ARTICLES.

"(a) Except as provided in subsections (c) and (d), the duty-free treatment provided under this subtitle shall not apply to—

"(1) textile and apparel articles which are subject to textile agreements;

"(2) footwear, handbags, luggage, flat goods, work gloves, and leather wearing apparel not designated at the time of the effective date of this title as eligible articles for the purpose of the generalized system of preferences under title V of the Trade Act of 1974;

"(3) tuna, prepared or preserved in any manner, in airtight containers;

"(4) petroleum, or any product derived from petroleum, provided for in part 10 of schedule 4 of the TSUS; or

"(5) watches and watch parts (including cases, bracelets, and straps), of whatever type including, but not limited to, mechanical, quartz digital or quartz analog, if such watches or watch parts contain any material which is the product of any country with respect to which TSUS column 2 rates of duty apply.

"(b) The President shall establish such categories of the kinds of articles referred to in each of paragraphs (1) through (5) of subsection (a) as may be appropriate for purposes of administering each of subsections (c) and (d).

"(c)(1) The President shall provide duty-free treatment under this subtitle to articles within any category established under subsection (b) if the United States International Trade Commission determines that—

"(A) the articles within that category either—

"(i) are not produced in the United States, or

"(ii) are not produced in the United States in quantities sufficient to meet the domestic demand for the product; and

"(B) no directly competitive articles are produced in the United States.

"(2) The President shall withdraw the duty-free treatment provided under paragraph (1) to articles within any category if the Commission determines, after a petition for such a determination is filed under paragraph (3), that the category is no longer eligible for such treatment under subparagraph (A) and (B) of paragraph (1).

"(3) A request for a determination under paragraph (1) or (2) may be made by any interested person by filing a petition for the determination in such form as the Commission shall prescribe. The Commission shall make the determination within 120 days after the date on which the request is received. A petition for a determination under paragraph (2) with respect to any category of articles may not be filed sooner than the first anniversary of the date on which the determination under paragraph (1) extending duty-free treatment to that category was made.

"(d)(1) As used in this subsection, the term 'duty-free quota' means, with respect to each category of articles established under subsection (b), and not excluded under paragraph (2), for each beneficiary country—

“(A) for calendar year 1988, a quantity equal to 103 percent of the base quantity for that category for that country; and

“(B) for each calendar year after 1988, a quantity equal to 103 percent of the duty-free quota for the immediately preceding calendar year for that category for that country.

The base quantity of any category of articles established under subsection (b) for a beneficiary country is the larger of—

“(i) the quantity of articles in that category that are a product of such country and were exported to the United States during the most recent 12-month period for which data is available; or

“(ii) the quantity of articles in that category that results from dividing—

“(I) the aggregate quantity of articles in that category that are a product of all beneficiary countries and exported to the United States during such 12-month period, by

“(II) the number of beneficiary countries.

"(2) For purposes of applying this subsection, articles that are provided duty-free treatment under subsection (c) or item 807.50 of the TSUS shall be disregarded.

"(3) Subject to paragraph (4), the President shall provide duty-free treatment under this subsection to articles of any beneficiary country that are entered during any calendar year after 1987 before the total quantity entered during that year equals or exceeds the duty-free quota for those articles for that country for that year.

"(4) The aggregate quantity of articles—

"(A) in any category to which a duty-free quota applies; and

"(B) produced in all beneficiary countries;

that may be entered duty-free during any calendar year after 1987 may not exceed an amount equal to 5 percent of the aggregate quantity of articles of that kind that are entered during that year from all beneficiary countries. If the 5 percent limitation set forth in the preceding sentence is exceeded during any calendar year, the President shall apply the excess, on an appropriate pro-rated basis, against the duty-free quotas for the following year for that category for all beneficiary countries.".

(b) CONFORMING AMENDMENT.—Section 213(b) of the Caribbean Basic Economic Recovery Act (19 U.S.C. 2703(b)) is repealed.

SEC. 5. REPORTS BY BENEFICIARY COUNTRIES.

Section 217 of the Caribbean Basin Economic Recovery Act is amended to read as follows:

"SEC. 217. REPORTS BY BENEFICIARY COUNTRIES.

"(a) Each beneficiary country shall prepare, and submit to the President reports setting forth, with respect to the period covered by each report—

"(1) the extent to which the government of the country has promoted and used benefits provided under this subtitle;

"(2) any change in the policies of the government for purposes of encouraging investment, and promoting exports, under this subtitle; and

"(3) the efforts by the government to enter into an exchange of information agreement under section 274(h)(6)(C) of the Internal Revenue Code of 1986, or, if such an agreement has been entered into, the extent to which the country has used the benefits under sections 274(h)(6)(C) and 936 of the Internal Revenue Code of 1986.

Each beneficiary government shall submit a report under this section not later than September 1, 1988, and a subsequent report before the close of each 3-year period occurring thereafter.

"(b) If a beneficiary country fails to comply with a reporting requirement under subsection (a), the President may suspend the provision of duty-free treatment under this title until such time as compliance occurs.".

SEC. 6. TERMINATION OF DUTY-FREE TREATMENT.

Section 218(b) of the Caribbean Basin Economic Recovery Act (19 U.S.C. 2706(b)) is amended by striking out "1995" and inserting "2007".

SEC. 7. SPECIAL TARIFF TREATMENT FOR BENEFICIARY COUNTRY PRODUCTS.

(a) BENEFICIARY COUNTRY ARTICLES WHOLLY OF UNITED STATES MATERIALS.—Subpart B of part 1 of schedule 8 of the Tariff Schedules of the United States (19 U.S.C. 1202) is amended—

(1) by adding the following new headnote:

"5. No quantitative import restriction provided for under any law shall apply with respect to any article provided for under item 807.50."; and

(2) by adding at the end thereof the following new item:

"	807.50	Articles manufactured, assembled, or otherwise produced in a country listed in general headnote 3(e)(vii)(A) in whole of materials, components, or other goods that are products of the United States..	Free			".

(b) DUTY-FREE ALLOWANCE FOR RETURNING RESIDENTS.—Subpart A of part 2 of schedule 8 of the Tariff Schedules of the United States (19 U.S.C. 1202) is amended—

(1) by inserting the following new headnote:

"4. As used in items 813.31 and 813.32, the term 'beneficiary country' means a country listed in general headnote 3(e)(vii)(A).";

(2) by striking out "item 813.30" and all that follows thereafter in the superior heading to items 813.30 and 813.31 and inserting "item 813.30, 813.31, or 813.32 within 30 days preceding his arrival, and claims exemption under only one of such items on his arrival.";

(3) by striking out "$800" in item 813.31 and inserting "$1,000";

(4) by inserting "or up to $600 of which have been acquired in one or more beneficiary countries" before the parenthetical matter in item 813.31; and

(5) by inserting after item 813.31 the following new item:

"	813.32	Articles whether or not accompanying a person, not over $600 in aggregate fair market value in the country of acquisition, including— (a) but only in the case of an individual who has attained the age of 21, not more than 1 liter of alcoholic beverages, and (b) not more than 200 cigarettes, and not more than 100 cigars, if such person arrives directly or indirectly from a beneficiary country, not more than $400 of which shall have been acquired elsewhere than in beneficiary countries (but this item does not permit the entry of articles not accompanying a person which were acquired elsewhere than in beneficiary countries)......................	Free		Free	".

(c) Effective Dates.—

(1) The amendments made by subsection (a) apply with respect to articles exported from the United States on or after the 15th day after the date of the enactment of this Act.

(2) The amendments made by subsection (b) apply with respect to residents of the United States who depart from the United States on or after the 15th day after the date of the enactment of this Act.

SEC. 8. CUMULATION INVOLVING BENEFICIARY COUNTRY PRODUCTS UNDER THE COUNTERVAILING DUTY AND ANTIDUMPING LAWS.

Section 771(7)(C)(iv) of the Tariff Act of 1930 (19 U.S.C. 1677(7)(C)(iv) is amended by inserting before the period the following: "; except that the volume and effect of imports from a country designated as a beneficiary country under the Caribbean Basin Economic Recovery Act may only be cumulatively assessed with respect to the imports of like products that are the product of one or more other countries designated as beneficiary countries".

SEC. 9. ETHYL ALCOHOL PRODUCED IN BENEFICIARY COUNTRIES.

Section 423(b)(1)(A) of the Tax Reform Act of 1986 is amended to read as follows:

"(A) an azeotropic distillation facility located in—

"(i) an insular possession of the United States, if that facility was established before, and in operation on, January 1, 1986, or

"(ii) a beneficiary country if that facility, was established before, and in operation on, January 1, 1987, or".

SEC. 10. SUGAR IMPORTS FROM BENEFICIARY COUNTRIES.

Notwithstanding any other provision of law, the aggregate quantity of sugar that is the product of any country designated as a beneficiary country under the Caribbean Basin Economic Recovery Act that may be entered, or withdrawn from warehouse for consumption, in the customs territory of the United States during any annual period occurring after December 31, 1987, is the aggregate quantity of sugar (expressed in short tons) that was allocated to that country for entry or withdrawal in such territory during the period beginning on September 26, 1983, and ending September 30, 1984.

Chairman GIBBONS. Good morning, ladies and gentlemen.

This morning the Subcommittee on Trade of the Committee on Ways and Means will begin its hearing on H.R. 3101, the Caribbean Basin Economic Recovery Expansion Act of 1987.

A group of us introduced this very important piece of legislation a little earlier this year, and we have been waiting for comments from the public, and, of course, we are going to have a number of public hearings on this matter. We want to enhance the effectiveness of the Caribbean Basin Initiative [CBI] which this committee has worked so hard to see implemented in 1983.

To date, the CBI program has been moderately successful, but much more needs to be done to help this region achieve economic stability. Of course, economic stability peace and prosperity is very important to the United States. This legislation that we have before us is a result of a year-long investigation by the Subcommittee on Oversight of the Committee on Ways and Means on the impact and effectiveness of the CBI under its leadership of the distinguished chairman, my good friend, Jake Pickle.

The Oversight Subcommittee worked long and hard in fashioning a report that would strengthen the operation of the program. The subcommittee carefully considered numerous proposed changes offered by Government officials and the private sector and investors in the Caribbean Basin countries and from this country.

I regret that this hearing is somewhat disrupted by the budget process and the legislative process the Congress is now going through. This afternoon this room will be needed for the budget reconciliation conference, which must be completed this week. Therefore, I have asked Ambassador Yeutter to postpone his appearance before this committee until we can arrange a more suitable time.

I would like now to recognize other members of the subcommittee, Mr. Guarini and Mr. Schulze, and ask if they have any statements that they would like to make before we get started.

Mr. GUARINI. Thank you, Mr. Chairman.

I am very pleased that we are having these hearings now in the midst of our trade and budget problems. It pinpoints the importance of these hearings to start them at this time.

I want to thank you for the leadership that you have shown in bringing these hearings, and all along your interest for effective CBI legislation, and particularly Jake Pickle who is the chairman of the Oversight Subcommittee who has so many deep concerns and has worked so hard in his trips to the Caribbean, as well as the legislation which he has put together.

I think there is a very widespread recognition that the history and destiny of our Nation and these nations in the Caribbean Basin area are interlinked and intertwined, and the future and well-being of the economic security of the entire Caribbean Basin translates into military and national security for the entire Western Hemisphere.

Central America and the Caribbean are becoming an increasingly visible part of the world. Political crises in the basin have made countries like Nicaragua, El Salvador, Grenada, and Haiti household words. Unfortunately, in many countries civil unrest and internal instability prevail. Because peace in the region remains tenuous, our efforts are more important now than ever.

Although many of the CBI countries are small, collectively they possess a population of more than 40 million. Their standard of living places them among the poorer of third-world nations. Without economic development these countries will never achieve lasting peace. Raising the standard of living for the people of the Caribbean Basin is vital to sustaining and expanding democratic systems. By a stronger economic union with the region, both the United States and the Caribbean Basin will benefit.

I am privileged to be an original cosponsor of the CBI enhancement bill we are now considering. CBI II takes the proven features of our present CBI, makes positive modifications and incorporates new provisions based on recommendations from the Oversight Subcommittee's insightful report and consultations with business and government leaders from the region. H.R. 3101 seeks to create a favorable climate for investment by extending the CBI to the year 2007, expanding the scope of duty-free treatment to many product areas where CBI countries are most efficient and restoring sugar quotas for CBI countries to their 1983 levels.

While I strongly support the provisions in this bill, I don't believe that they should be set in stone. This is a dynamic program which we can improve with new, creative and innovative ideas. There are areas we need to address, such as expanding scholarship and training opportunities, promoting infrastructure and tourism development and equity investment. I feel we should consider combining equity investment and employee ownership. We need to give the people of the region a direct stake in investment and a direct benefit from it.

We also need to fully utilize the benefits of Puerto Rico's section 936 to encourage twin plant projects and infrastructure development throughout the Caribbean Basin. Moreover, I believe we need a mechanism, perhaps a Caribbean Development Council, that could cut through bureaucratic red tape and assist Caribbean Basin businessmen and entrepreneurs in identifying market openings and getting their operations off the ground.

In crafting CBI II, we need to consider the character and nature of the beneficiary countries and pay careful attention to their unique capabilities. We need to create a truly development-oriented program that will increase investments and help expand nontraditional exports.

We have 4 years of experience of the CBI to measure its strong points and weaknesses, to look at where we have succeeded and where our efforts have failed. We have had the benefit of listening to the views of a broad range of government and business leaders on the United States and the basin. We have begun an important dialogue with leaders from the Caribbean Basin and created channels for the exchange of ideas on issues vital to the region.

Communicating our ideas with one another is extremely important. The CBI must be a balanced package which takes into consideration regional views and U.S. domestic and foreign policy interests as well. It cannot be successful without a firm commitment for the full cooperation and active involvement of basin government and business leaders; nor can it succeed without the commitment of U.S. industries and our Government.

An effective CBI can foster the proper environment under which the forces for economic development can thrive and under which peace and stability can be attained. This was our goal in 1983 when we enacted the original CBI. It remains our goal today.

CBI II will not be enacted without controversy. But we must all be prepared to make concessions for the sake of peace, prosperity and democracy in this hemisphere. Small concessions today will spell the success of the CBI tomorrow.

I look forward to these hearings, Mr. Chairman.

Chairman GIBBONS. Thank you, Mr. Guarini.

I want to pay particular tribute to the organization you have put together, called Friends of Caribbean. You have done a great job in helping sensitize the entire Congress to the need for doing a lot more about the Caribbean.

I also would like to say, Mr. Rangel, who is an important member of this committee, would be with us this morning, but he is also chairing another hearing at the same time, but his thoughts and spirits are with us.

Mr. Schulze, you have introduced another piece of legislation that is supplemental to the Caribbean initiative and is also a subject that we want to hear about today, not only from you, but from witnesses as they testify in this hearing and in future hearings. I want to pay tribute to you for your long, long effective interest in the Caribbean. If you got a statement now, I would like to recognize you.

Mr. SCHULZE. Thank you, Mr. Chairman.

I concur in all that has been said. Our goals are lofty, and we are hoping to make progress, but quite frankly we all had the same goals when we were working on CBI I. I was somewhat disappointed when we took a step or two backward in this very committee after CBI I had been passed. I would hope we will now make that quantum leap that we will do those things which are meaningful and in the long range benefit this very critical area and that Congress will put aside some of its parochialism and say it is in our Nation's best interests to have a stable, prosperous area to our southeast and south.

There are problems, there are specific interests that may be somewhat impacted by such legislation. There are other areas which perhaps politically don't look too palatable but are beneficial to the Caribbean area, and I would hope, Mr. Chairman, that with your leadership and with Mr. Pickle's guidance, that we can hammer out a bill which will be meaningful, which will stand the test of time. I hope it will be something we can look back on in 5 years and say it was a major turning point, not symbolic, but in a very fruitful, meaningful and dynamic way.

I thank you for the opportunity.

Chairman GIBBONS. Thank you, Mr. Schulze.

Mr. Crane, I know of your long interest and effective interest in this and loyalty to this program. Would you like to make a statement?

Mr. CRANE. A brief one, Mr. Chairman, and thank you.

I want to congratulate Frank Guarini and commend him for the initiatives he has made in this area too. He and I and Dick and Senator Graham had the privilege of being down in Miami 2 weeks ago today for a seminar on the Caribbean Basin initiatives. It was, I think, a most worthwhile opportunity for those Members of Congress who have been interested and involved to get input from people in the area. I then had the opportunity to go to Puerto Rico in connection with the Puerto Rico USA Foundation and look at some of the programs in operation there. I was there for a groundbreaking ceremony for an expansion of Warner-Lambert, which currently has 1,200 employees in Puerto Rico. They are about to go to 1,500. Their payroll is $28 million a year; within 2 more years it will be $37 million.

We spoke to a very impressive young manager with Pharmocele who told us about the twin plant or mirror plant proposals where some of the labor intensive aspects of 936 programs are going to be worked in conjunction with mirror plants in other Caribbean countries. One of the things he pointed out to us was the very high, higher even than here in the United States, literacy rate in Costa Rica. Costa Rica has a tremendous amount of talent but it is lacking some economic development it could achieve. Pharmocele is in the process right now of considering having a mirror plant in Costa Rica.

Warner-Lambert has one in the Dominican Republic, and I want to give credit to Governor Colon of Puerto Rico for having taken a stand some viewed as politically injurious and damaging to himself, but it was the proper concept, because, as the fellow explained to us when you start shaving profit margins, you can do that, but ultimately you are faced with the prospect of closing the plant altogether and packing up. This is a preferable alternative and consistent with the Caribbean Basin Initiative in achieving a level of development for all of the countries in the region.

So I want to commend all those who have been involved, and again I want to thank Frank and look forward to the opportunity to hear testimony from our distinguished visitors.

Chairman GIBBONS. Good. Thank you.

As our first witness, we will call Senator Graham. I have called him Governor so many years, it is almost impossible for me not to address him in that term. He is a distinguished former Governor of Florida, 8 years, as long as you are allowed to serve under the State constitution, a very outstanding State senator prior to that, and a man who has interested himself and Florida in world trade and particularly in the Caribbean, a leader in every way. We are glad to have you with us this morning.

STATEMENT OF HON. BOB GRAHAM, A U.S. SENATOR FROM THE STATE OF FLORIDA

Senator GRAHAM. Thank you very much, Mr. Chairman.

I appreciate those very generous words. I would like to express my appreciation to all of the members of the subcommittee for your deep interest in this subject. I have enjoyed the opportunities that we have had to be together over the past several weeks as we have shared our thoughts with others from the Congress, as well as from nations around the world who are recognizing the importance of the Caribbean Basin as a new center of world significance.

I would also like to commend Congressman Jake Pickle and his subcommittee for the very effective analysis which has recently been completed of the Caribbean Basin Initiative and the prescription that Congressman Pickle will be laying before you as the background for this legislation. I think it is in the very highest tradition of congressional oversight and the opportunity to take advantage of that oversight in this Caribbean Basin Initiative. Mr. Chairman, members of the subcommittee, we are all here today because we recognize the importance of the Caribbean Basin. And as representatives of the people of the United States of America, we especially recognize the importance of the Caribbean Basin to our Nation.

It has been easy the past few days to focus on superpower foreign policy. The high drama of the Gorbachev visit, the summit and the treaty signing captured the attention of Americans and the world. An equally significant drama is unfolding daily to the south of us. We welcome this opportunity to discuss events and political and economic evolution in this hemisphere.

The Caribbean Basin is an area which has had a profound impact on our national security. Economic stability translates to political stability; a productive Caribbean Basin is a safe southern flank and a solid bridge to Latin America.

We have seen a positive turnaround in much of the Caribbean region during this decade. Stories of guerrilla wars and mayhem dominate our front pages, but the real story is infinitely more complex and optimistic.

Examples: Guatemala has a freely elected, nondespotic president who has done much to eliminate the tragic genocide of the indigenous Mayan population in that country and to begin significant reforms in the structure of the economy.

The eastern Caribbean islands have embraced strong democratic governments and are working to build the infrastructure and networks needed to develop their society.

An entrenched dictator fled Haiti, the Haitian people voted overwhelmingly for democratic elections. The democratic evolution in that country has been tragically calamitous in recent weeks, but the will of the Haitian people for democracy and economic rebuilding is undeniable, and we will help them as good neighbors to see that that happens.

Jamaica and El Salvador are struggling through economic hard times and a lingering insurgency, but they are close friends of the United States. We are cooperating in their progress.

The potential for return on our Caribbean investments has never been better than it is today.

Five years ago, when the Congress passed the Caribbean Basin Initiative, we were making a statement about our interests and about our mutual interests. Clearly, we recognized our own involvement in the region and the pattern for the future of the interdependence of the United States with this region.

The motives behind the CBI were well intended, but 4½ years of implementation and global market events outside our control have diluted the intended effects of the CBI.

Several Caribbean commodities have not held their prices. Petroleum, coffee, sugar are examples of those commodities whose depressed values have depressed the entire economies of those nations dependent upon them. War in Central America has taken its toll on business and international trade. What we could not foresee when we first planned CBI has left its mark on the CBI we have today.

The good news is that we have the ability to remedy some of those ills and offset others by strengthening our original commitment to the initiative.

Our response to these setbacks can mirror the spirit of the optimism that we can find in the industry of the Caribbean Basin. That reflection itself will help to propel the spirit of optimism forward.

We in the United States are as much affected by shifts in world economy as the smaller, lesser developed nations. After this season, we know that we are not invincible, but with the knowledge comes a clearer sense of our direction. Our resources are not limitless, so our investments must have purpose. If we invest in the Caribbean Basin carefully, wisely, we can stand to return great dividends. Hemispheric interdependence is a reality and will become more and more dominant in our lives as this century comes to a close and Latin America will emerge into its rightful position of importance. Our ties to the Caribbean Basin are forever a link between that north and south. The stability and prosperity of the region touches us more and more deeply.

Americans have come to understand that foreign policy can no longer divide itself between protocol and military intervention. The existence of the CBI is an acknowledgment more and more our international relationships will be defined in economic, not in military, terms.

During a recent visit to Central America in August of this year, I heard repeatedly the statement made that the Caribbean Basin Initiative, Mr. Chairman, has been a catalyst. It has caused the nations in the Caribbean region to look at themselves, to begin to integrate previously disparity aid programs, scholarship programs, incentives to the private sector into a more coherent national economic plan, to begin to see how all of that can relate to a longer term positive constructive proactive relationship with the United States of America.

The attention which this legislation and your subcommittee are giving to the Caribbean Basin Initiative will be reassuring to our friends to the south, a serious indication of the purpose that we have as a nation toward forming a new relationship with our neighbors in the Caribbean Basin we must foster, and this legislation will contribute to a holistic view of our hemisphere.

We must give the peoples of our neighboring nations the same chances for an acceptable quality of life and a thriving market as we wish to continue to enjoy for ourselves. Through an improved and expanded Caribbean Initiative we take a major step in assuring this will happen.

Thank you, Mr. Chairman.

[The statement of Hon. Bob Graham follows:]

STATEMENT OF SENATOR BOB GRAHAM

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But an equally significant drama is unfolding daily to the South of us and we welcome this opportunity to discuss events and political and economic evolution in this hemisphere.

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The Eastern Caribbean islands have embraced strong democratic governments and are working to build the infrastructures and educational networks they need to develop their societies.

An entrenched dictator fled Haiti for permanent exile and the Haitian people voted overwhelmingly for a democratic constitution and elections. The democratic evolution in that country has been tragically calamitous in recent months but the will of the Haitian people for democracy and economic rebuilding is undeniable—and we will help them to make those things happen.

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We must foster a holistic view of our hemisphere. We must give the peoples of neighboring nations the same chances for an acceptable quality of life and a thriving market as we wish to continue to enjoy. Through and improved and expanded Caribbean Basin Initiative we take a major step in assuring that will happen.

Thank you, Mr. Chairman.

Chairman **GIBBONS**. Mr. Schulze, would you like to ask questions?

Mr. SCHULZE. Thank you, Mr. Chairman. Thank you, Senator, for both your interest in this area and for a very enlightening statement.

Senator, one area which I have been concerned about is the utilization of cruise ships and increasing cruise ship passengers to help attract funds and capital into the islands. It seems to me, and my view has been for some time, that you don't need a fancy infrastructure; all you need are some products to take care of the cruise ship passenger list. A cruise ship doesn't even need a harbor and a dock. You can off-load with smaller boats. If we can encourage this through the use of the Tax Code, the deductibility of conventions on cruise ships, it is the most rapid way to get an infusion of money into some of the more lesser developed islands. Every time this is mentioned, however, it is looked upon as a ripoff or a way that people can avoid paying taxes or can avoid paying for cruises.

That does not concern me as much as the idea of trying to get capital infusion into some of the poorer islands, and I wonder what your view is on the topic and how you think that the idea would fare in the Senate. One of the parts I made in my opening statement was that there are going to be some tough political decisions. We may be accused, if we did something like that, of opening another loophole or boondoggle, but it seems to me we should be willing to take the heat if we know the end result is going to be beneficial enough to make it worthwhile.

I would like to have your views.

Senator GRAHAM. Thank you, sir. I will try to answer those questions I feel capable of answering.

One of those I don't feel capable of answering is how that proposal may be received in the Senate, in deference to my very junior position there. I can speak personally. I would be very supportive of that idea, assuming that the activity itself, the convention, is a credible and legitimate business expense which would be subject to deduction if it were held in the United States or another approved site. I believe the opportunities for merged tourism activity between the United States and the Caribbean, which are already substantial, have even greater growth potential and that this type of activity, encouraging it and using it as one of the ways to enhance the economic well-being of the Caribbean, would be a very constructive addition to our efforts in the region.

Mr. SCHULZE. Thank you, Senator. I know of your ideas on enhanced education, and I wondered whether you would want to take this opportunity to expand on any of that.

Senator GRAHAM. Realizing that you have a full agenda for the day, I will save you the full thesis, but fundamentally, one of the most important long-term relationships that can be established is at a people-to-people level, particularly with the next generation that will be providing governmental, professional, business, academic, civic leadership in our neighboring countries, and that it is a very important and significant form of an extension of the policy of a good neighbor for the United States to make it possible for students from low and moderate income families who otherwise would be precluded the chance to study in the United States of America.

Beyond the aspects of a good neighbor, there is also a very direct competitive issue here. The Soviet Union and its surrogates in Central Europe and Cuba have found the importance of scholarships as a means of influencing the future direction of countries in Central America and the Caribbean.

At the present time, socialist countries are providing scholarships in a quantity of three to four to five times or more greater than are being provided for low and moderate income students to study in the United States. That is a competition which the United States has no excuse for losing and which we cannot tolerate losing, and if we allow it to continue to occur, we will pay an enormous price.

Mr. SCHULZE. Thank you, Mr. Chairman.

Chairman GIBBONS. Mr. Guarini.

Mr. GUARINI. Senator, it is good to see you again. I want to commend you for your efforts in the Caribbean Basin area both as Governor and as U.S. Senator. You truly understand the strategic and economic values of the region.

You mentioned your scholarship program. Which I feel education should be very much in the forefront, and both as Governor you had a foundation in addition to the bill that you have now, so you have experience in this area. Could you tell me whether or not emphasis should be placed on vocational schools or graduate work or at the professional level or undergraduate work in the colleges? Have you got any sense as to where we could best put our efforts?

Senator GRAHAM. I would preface by saying that one of the things that citizens of the United States have to be careful about in dealing with the Caribbean and Latin America, in general, is to avoid the trap of homogeneity. We are dealing with countries that are strongly nationalistic, that have their own history, culture, view of their national destiny. And we must be respectful of that difference and not attempt to treat the region as if it were a single entity.

Within that respect for diversity also comes the recognition the same type of educational relationships are not necessarily appropriate. We are going to hear today from representatives of two of the most developed countries in the region: Costa Rica and Trinidad Tobago. Their needs are quite different than would be the case of some of the much less developed countries, such as Haiti.

Mr. GUARINI. So we should target the education where it would be most effective.

Senator GRAHAM. Where it would be most effective and sensitive to what are the needs of that particular country at its stage of evolution.

Mr. GUARINI. Would these be grants or scholarship loans?

Senator GRAHAM. I think a combination. And I know that, for instance, you have been interested in using the resources available in Puerto Rico, and I think that is a very wise recognition of a special U.S. resource in the region culturally and linguistically compatible with the region.

Mr. GUARINI. The costs are considerably less and a very good university exists in Puerto Rico.

Senator GRAHAM. Yes. I have been interested in a program which would involve the American private sector and states in a collaboration with the Federal Government in meeting our scholarship needs. Frankly, we are so woefully deficient in this area that we are going to need every creative idea, every initiative which will be able to stimulate additional involvement and sustained support that we can have. I don't see these ideas as being competitors, but rather as all building blocks toward a house that will provide an educational home for United States-Caribbean relations.

Mr. GUARINI. Would you agree with the concept if there are scholarship loans that they would be canceled if they returned back to their home of origin? So often they leave the country and the good you intend to do never materializes because they get married and stay in the new country and have new opportunities, and they never go back home to use their talents where you would want them to use them the most.

Senator GRAHAM. That is a concept which has been applied in a number of areas within the United States where you are trying to encourage students to study particular disciplines, such as medicine or education or to practice in a disadvantaged area, an underserved area. it may be a concept that has applicability in these types of scholarships.

My concern is that you don't want people who are going back to their home country out of a sense of economic duress, that is that they are doing this in order to avoid the greater difficulty of repaying a substantial loan. What we have tried to do in the Florida scholarship program is to emphasize the selection of students at the beginning of the process, which has typically led to students somewhat older, who had some life experiences, who demonstrated a commitment to participation in the building of their own nation and had a clear career goal as to how they were going to do that, whether they were going to do it in civil engineering or in agriculture or in education, or whatever area they felt was most appropriate.

I personally have a predilection that that is the more constructive way to assure that the educational training will redound to the benefit of the nation from which the students came.

Mr. GUARINI. How many students do you envision this would encompass, and what would the cost be approximately?

Senator GRAHAM. Well, I believe that the goals set out in the Kissinger Commission report, which was 10,000 scholarships per year, that is that there should be 10,000 students from the countries of the Caribbean Basin studying in the United States in any given year, is a reasonable goal. It is a goal which is consistent with what our socialist adversaries are already doing in that region.

Mr. GUARINI. If you say 10,000 a year, by the time it gets full blown in a 4-year program, that would mean possibly 40,000 students that would be on line regularly once it got going?

Senator GRAHAM. Well, I would—I think what the Kissinger Commission suggested, that there be 10,000 students at any one time. Of course, they would be cycling throughout the process, depending on the length of their studies. As to the cost, I don't think you can multiply 10,000 by what we are currently spending at the Federal level, which is in the range of $10,000 to $15,000 a year. I don't believe it is realistic this Congress can find the resources to fund a program at that first-student level.

Therefore, creative ideas, such as using the resources of the University of Puerto Rico, involving States and private sectors as partners in the funding of these programs, to me not only have educational benefits but also make the goal financially obtainable.

Mr. GUARINI. And get the business community active also.

Senator GRAHAM. Correct. And there are benefits beyond just involving their dollars in meeting the cost of the program, there are benefits in the relationship it will establish with the individual students who are the beneficiaries of either a local community or State or private sector's investment or the special relationship that you contemplate would exist with the citizens of the Commonwealth of Puerto Rico.

Mr. GUARINI. Thank you for your sustained interest and your good work.

Chairman GIBBONS. Mr. Crane.

Mr. CRANE. Thank you, Mr. Chairman.

I want to congratulate Senator Graham on his testimony. Senator, this may be a sensitive question to put to you coming from the State of Florida, but do you favor our chairman's recommendation that sugar quotas be taken back to 1984 levels?

Senator GRAHAM. Yes.

Mr. CRANE. I want to salute you both because it takes a lot of political courage and it is the right move in my estimation, but I know the sensitivities in your State because of sugar growers there. I simply want to commend you for your position and our distinguished chairman for his on that issue.

Based upon the conversations that I had with some of our Caribbean nation neighbors, one of the most injurious things that has happened to them, has been the reduction in access to our sugar markets.

Senator GRAHAM. Yes. Since the CBI was first adopted, there has been a drop of approximately two-thirds in the U.S. quota for sugar from the Caribbean. For instance, the Dominican Republic, one of our strongest allies in the Caribbean, had a quota of approximately 500,000 tons per year when the CBI started. Today it is under 150,000 tons.

I believe that there are a variety of ways in which this issue can be approached, some of them are currently being considered in the continuing resolution that has recently passed both Houses. But the goal of restoring a greater predictability and stability to the sugar economies of the Caribbean and Central America is an important provision in this legislation, and it recognizes that while much of the focus has been on expanding in the nontraditional areas, and that is very important, that if that effort coincides with the disintegration of the traditional economies of the region, your sum result may be a net negative rather than the constructive gains that we hope to achieve.

Mr. CRANE. I concur, and I think it is important for Americans to realize, notwithstanding these negative trade figures that are broadcast routinely with the Caribbean, we have a positive balance of trade and we have been moving in a counterproductive direction on sugar exports, and hopefully we will get that changed next year.

I want to thank you and salute you again, Senator.

Senator GRAHAM. Thank you.

Chairman GIBBONS. Senator Graham, I want to thank you for your courage and your insight and for your leadership. I look forward to working with you on this legislation.

Senator GRAHAM. Thank you very much, Mr. Chairman. I appreciate the early hearings you are giving to this matter and hope that as a Christmas present for 1988 that we can present to our friends in the Caribbean a reformed Caribbean Basin Initiative.

Chairman GIBBONS. That is a good wish. I agree with you.

Our next witness is our distinguished colleague, J.J. Pickle of Texas. Mr. Pickle is the chairman of the Oversight Subcommittee of the Committee on Ways and Means, and has conducted an investigation into the effectiveness of the CBI program.

He has also distinguished himself by having been a supporter of this program from its inception. Way back before we ever had any specific legislation, Mr. Pickle was visiting the Caribbean, looking over the problem, making decisions, and he has been a vigorous fighter and a vigorous participant in the development of the program.

Mr. Pickle, we recognize you. You may proceed as you wish.

STATEMENT OF HON. J.J. PICKLE, A REPRESENTATIVE IN CONGRESS FROM THE STATE OF TEXAS

Mr. PICKLE. Thank you, Mr. Chairman. I thank you for calling this hearing so that we might start consideration efficiently of this very important piece of legislation.

I would like to revise and extend my remarks in order that I may make some broad observations, and I may refer to some of my testimony, but I want to be sure the specific recommendations that we are making are brought to the committee's attention.

You have a copy of my remarks.

Chairman GIBBONS. Yes, sir.

Mr. PICKLE. Let me say at the outset that when we passed CBI legislation some three years ago, we had high hopes that it would immediately be a huge success. The administration had recommended and the Congress, after long debate passed it, but we qualified it and weakened it in many respects. When the report came out a couple years ago, 18 months ago now, the facts actually showed that on paper the CBI had not been a very big success. I was among those who was rather a doubting Thomas, should we go forward with it? I realize, though, the imbalance was probably brought about because of the huge difficulties that those island economies experienced in the areas of petroleum, sugar and coffee to some extent.

At the chairman's request and at the request of the administration, we went to the islands in January of this year, in 1987, and visited five different nations to see how the CBI was working, and what we could do to improve it. I want to congratulate you for recommending we go as an Oversight Subcommittee and I want to commend the administration, Mr. Yeutter and the Assistant Secretary of State for Inter-American Affairs, Elliott Abrams, for going with us. On every stop we had our committee members and we had Clayton Yeutter or Elliott Abrams with us. Every one of the nations, every one of the islands received us cordially and with specific recommendations and deep feelings about what should be done.

I don't know that I ever made a trip where more governmental officials, more local businessmen or American businesses came out to talk to us about this, and I found out immediately that it was tremendously important we do something about this legislation, and I have gone from a point of some skepticism to a point where I think it is tremendously important to this country. That is why we have made specific recommendations to your committee, and I commend you for introducing legislation on the points we have made and for strengthening the bill that is presently before us, H.R. 3101.

Now, Mr. Chairman, rather than mention each one of the items, because you have a copy of my remarks, and each specific recommendation is listed there in bold face, I think I will use my time by summarizing certain provisions.

First, I think it tremendously important that we reaffirm our commitment to the CBI. Whenever we went to any of these islands down there, one of the first questions they would ask was: Are you going to continue with CBI? If those governments were asking that question, you can be certain that a businessman who might be asked to invest several million in plants and equipment is not going to be apt to do that if he thinks CBI is going to expire in another 7 or 8 years, for example in 1995. So the question was, are we committed?

And I think the first thing we can say as American Government can say to the people there is that we are committed, we think it is important to our national security. And, Mr. Chairman, it is. What we can do to help those governments maintain a democratic form of government, where they can have jobs and produce goods and have a stable government, depends a great deal on the help we can give them and if we don't do it, we are going to have all kinds of turmoil.

Mr. Chairman, we have reached a point now in our trading relationship where I hope in this country we are looking southward. Our eyes are cast to our neighbors to the south, saying "We know you are not only our friends, you are our neighbors, you are not just in our back yard, you are in our front yard, and we need to have more trade with you" so that they can pursue and enjoy a democratic form of government.

I personally believe we may never have had the Nicaraguan situation if we had had a good strong CBI 5 or 10 years ago. It is needed, it is in our national interests that we do so, and we don't have to be selfish, we can work with those nations.

The second thing is that the business people are expecting, as I view it now, that this program will expire by 1995. They are not going to be making a big investment if it is only for another 8 years. Would you? I doubt any of us would. So we thought the best thing to do was to extend this time and roll it forward. At one time, at the administration's request, I might add, the CBI countries were willing to have a rolling expiration date each year if it was automatically renewed and extended on an annual basis. Rather than do that, because of other considerations, we propose 12 additional years. We are saying the CBI ought to be extended until the year 2007. That gives plenty of time for a businessman to make his calculations, and determine whether to move forward on it. Those are two very important broad aspects of this legislation, and I mention those.

Now, I know we have got some points in here that are controversial. We make recommendations, for instance, that imported articles assembled or processed from 100 percent American-made parts and returned from CBI countries be granted totally duty-free treatment.

At first we were recommending that the enhanced value added in the CBI country would be brought in duty-free. Now we are saying, in legislation you introduced, that the entire item would be duty-free if it is made of 100 percent American goods.

Chairman GIBBONS. Quota-free today.

Mr. PICKLE. Quota-free, too.

Now, Mr. Chairman, I recognize that is controversial. I recognize also when we get into the area of giving specific help to the eastern Caribbean states, that it involves a special consideration. We are proposing to increase the level of U.S. content from 15 to 25 percent, thereby reducing the strain on those small island economies necessary to meet the 35 percent local content requirement. Now that is giving those eastern Caribbean countries an extra break because it is easier for them to meet the substantial transformation requirement if we change those percentages. I recognize it is a little extra benefit to a certain group of countries.

We have also made a recommendation regarding cumulation: that we measure the damage done to us by foreign subsidy and dumping practices on the basis of the level of goods coming from those islands alone and not on the basis of the impact of these practices from all offending governments, because the level of goods we get from those CBN countries is so small that they really cannot hurt us on a big scale. That is a controversial proposal.

But if we say to Costa Rica, "We want you to send us cut flowers," we ought not turn around and say, "We are going to limit you to a certain amount." Therefore, I say we ought to make a little extra consideration.

I will make one or two more points by way of example. I know when you say we ought to restore the sugar quota to the 1984 level, that it is controversial. We all know that because we know that sugar is in abundance, and it is a national and international problem.

But it would seem to me, Mr. Chairman, we ought to try to say how we can help those friends of ours who need help the most and as we traveled through those islands, every one of the islands, it was obvious one of the biggest sources of income, the very biggest, was sugar. That has been going on for 100 years. For us to change it abruptly is very, very damaging to them no matter how much they want to reorient their industries. It is going to take them time.

We have cut the quota down by 46 percent since 1984. That hurts their economy. Somehow we ought to give them relief. Whether you can restore the quota to the 1984 level, as you have recommended, Mr. Chairman, or whether we have some compromise in there is something I am not sure I know—we may have to look at the old question, do you raise the global quota? I know the administration has reservation about that, and it is a controversial subject.

But I must say to the administration, to you, that Ambassador Yeutter and Secretary Abrams have generally recommended this bill. They think it is very important to us. They may want to go a little easier on textiles or leather goods and maybe a little bit on sugar, but they recognize what we do is tremendously important for us in that area, and I would say, Mr. Chairman, if you from Florida can accept the bill's sugar provision from a State that produces probably more sugar than any other State, including my own, if you can take the heat, then we ought to ask somebody from Chicago or Pennsylvania or New Jersey to take the heat.

But it would not be easy. I recognize that is controversial. Those are the points I want to make to you. I just say to you that I am very personally concerned that we move forward with this legislation. It seems to me within the last year the entire Congress almost has come about face on this matter and said it is terribly important.

Mr. Guarini and Mr. Frenzel have held a series of meetings with our Caribbean friends. I guess we have had 10 different conferences up here, either luncheons or breakfasts, where we have talked to them, trying to say to them in strong language "We want to move forward with this legislation, we have been held up because of the trade bill, the trade bill has been held in abeyance, we don't know what will happen to that." No matter, in order to move forward, this subcommittee should consider it, and I hope you make recommendations to the full committee.

I will conclude by making an appeal. I hope you would be as bold as you can in passing this legislation specifically as introduced. Even though it may be controversial, I ask that you build up your courage and try to move forward. I will admit this is special legislation for a part of the world, CBI, and we are going further than we did before. But the reason we did it in the first place is because we thought it was important.

So when you raise the question, if anyone does, why should we give CBI products this duty-free treatment when we don't do it for our other trading partners, I would have to say, yes, that is true, but they are over in another part of the world. These folks are in our hemisphere, they are our neighbors, and if we want to further democracy, it seems to me that this is one good positive step, we could do it without causing a great deal of damage.

I highly recommend the measure to you and hope the committee can move forward with it and do so quickly so these nations and friends of ours will know we have indeed forged a stronger bond of friendship through trade than we have today.

Thank you.

[The statement of Hon. J.J. Pickle follows:]

STATEMENT OF
THE HONORABLE J.J. PICKLE BEFORE THE
SUBCOMMITTEE OF TRADE, COMMITTEE ON WAYS AND MEANS
MONDAY, DECEMBER 14, 1987

MR. CHAIRMAN, IT IS AN HONOR TO APPEAR BEFORE YOU TODAY TO SUPPORT THE "CARIBBEAN BASIN ECONOMIC RECOVERY EXPANSION ACT." AS YOU KNOW, YOU AND I AND MANY OTHER MEMBERS OF THIS COMMITTEE AND THE CONGRESS HAVE A COMMITMENT TO OUR CARIBBEAN NEIGHBORS. THE HEARING TODAY IS JUST ONE MORE EXAMPLE OF HOW IMPORTANT THIS LEGISLATION IS TO THE COUNTRY!

THE OVERSIGHT SUBCOMMITTEE OF THE COMMITTEE ON WAYS AND MEANS HAS COMPREHENSIVELY EXAMINED THE IMPACT AND EFFECTIVENESS OF THE CARIBBEAN BASIN ECONOMIC RECOVERY ACT OF 1983. THIS ACT IS MORE COMMONLY REFERRED TO AS THE CARIBBEAN BASIN INITIATIVE OR "CBI". OUR EXAMINATION BEGAN WITH HEARINGS BY THE OVERSIGHT SUBCOMMITTEE IN FEBRUARY OF 1986. WE RECEIVED TESTIMONY FROM U.S. GOVERNMENT AGENCIES, AS WELL AS U.S. AND FOREIGN INVESTORS IN THE CARIBBEAN BASIN REGION, INDICATING THAT AFTER TWO YEARS OF OPERATION, THE CBI MAY NOT HAVE ACHIEVED OUR GOAL OF SUBSTANTIALLY IMPROVING ECONOMIC CONDITIONS IN THE REGION.

THE SUBCOMMITTEE ON OVERSIGHT CONDUCTED A FOLLOW-UP FACT-FINDING MISSION TO THE REGION IN JANUARY 1987 TO DETERMINE WHERE THE CBI HAD MET WITH SOME SUCCESS AND WHERE THE CBI COULD BE IMPROVED. WE VISITED FIVE COUNTRIES-- JAMAICA, COSTA RICA, BARBADOS, DOMINICAN REPUBLIC, AND HAITI-- AND SAW FIRST-HAND SOME OF THE RESULTS OF THE CBI LEGISLATION. BASED ON THE IMPORTANT FINDINGS RESULTING FROM OUR INVESTIGATION, WE WERE ABLE TO MAKE THE FOLLOWING RECOMMENDATIONS TO THE TRADE SUBCOMMITTEE THAT ARE NOW INCLUDED IN H.R. 3101.

OUR SUBCOMMITTEE'S FIRST RECOMMENDATION WAS: **THE PASSAGE OF A JOINT RESOLUTION REAFFIRMING CONGRESSIONAL COMMITMENT TO THE SUCCESS OF THE CBI.** THIS WAS BASED ON THE SUBCOMMITTEE'S DESIRE TO RECOGNIZE THE CARIBBEAN BASIN REGION AS A NATIONAL SECURITY INTEREST OF THE UNITED STATES. FURTHER, TO THE EXTENT THE CONGRESS IMPOSES LEGISLATIVE CHANGES TO IMPROVE COMPETITIVENESS OF AMERICAN INDUSTRIES AND WORKERS, IT IS IMPORTANT THAT SUCH CHANGES DO NOT NEGATIVELY IMPACT THE CARIBBEAN BASIN BENEFICIARY COUNTRIES. BY VISITING RECENTLY ESTABLISHED PLANT SITES AND OTHER INVESTMENTS INVOLVING NON-TRADITIONAL EXPORTS AND TALKING DIRECTLY WITH INVESTORS, WE FOUND THAT THESE NEW INVESTMENTS CREATED NEW JOBS AND FURTHERED THE STABILITY OF THE ECONOMY IN EACH OF THESE FIVE BENEFICIARY COUNTRIES. ECONOMIC STABILITY IS THE KEY INGREDIENT IN THE POLITICAL STABILITY OF DEMOCRATIC SYSTEMS IN THE CARIBBEAN BASIN COUNTRIES. THUS, THE CBI IS AN IMPORTANT ELEMENT OF THE NATIONAL SECURITY INTERESTS OF THE UNITED STATES.

A SECOND RECOMMENDATION WAS: **TO EXTEND THE PROVISIONS OF THE CARIBBEAN BASIN INITIATIVE BEYOND ITS CURRENT SEPTEMBER 30, 1995 EXPIRATION DATE.** THIS WOULD EXTEND THE TAX AND TRADE BENEFITS PROVIDED UNDER THE CBI FOR AN ADDITIONAL 12-YEAR PERIOD. CURRENTLY, INVESTORS ARE ONLY ASSURED OF RECEIVING THE BENEFITS OF THE CBI FOR EIGHT MORE YEARS, UNTIL 1995. REPRESENTATIVES FROM EVERY COUNTRY VISITED BY THE DELEGATION REQUESTED AN EXTENSION OF THE CBI. THEY NEED TO ASSURE POTENTIAL INVESTORS THAT THE BENEFITS OF THE CBI WILL CONTINUE WELL INTO THE FUTURE. IN ADDITION, WE RECOMMENDED THAT CBI BENEFICIARY COUNTRIES SHOULD REPORT PERIODICALLY: THEIR EFFORTS TO PROMOTE CBI BENEFITS; GOVERNMENTAL POLICY CHANGES THAT ENCOURAGE INVESTMENT AND PROMOTE NON-TRADITIONAL EXPORTS; AND, EFFORTS THEY HAVE MADE TO ENTER INTO TAX INFORMATION EXCHANGE AGREEMENTS OR TO USE BENEFITS AVAILABLE THEREUNDER.

ANOTHER OVERSIGHT SUBCOMMITTEE RECOMMENDATION PROVIDES THAT: **ARTICLES ASSEMBLED OR PROCESSED FROM 100% AMERICAN-MADE PARTS OR COMPONENTS ENTER THE UNITED STATES FROM CBI BENEFICIARY COUNTRIES TOTALLY DUTY-FREE.** CURRENTLY, DUTY IS NOT PAID ON THE VALUE OF AMERICAN-MADE PARTS OR COMPONENTS SENT TO A CBI BENEFICIARY COUNTRY FOR ASSEMBLING OR PROCESSING. DUTY IS PAID, HOWEVER, ON THE VALUE-ADDED PORTION OF THE ARTICLE WHEN RETURNED TO THE UNITED STATES. THE EFFECT OF THIS PROVISION WOULD ELIMINATE THE DUTY ASSESSED ON THE VALUE-ADDED PORTION OF THE ARTICLE SO LONG AS THE ARTICLE IS MADE OF 100% U.S. PARTS AND COMPONENTS. EVERY COUNTRY WE VISITED INDICATED THIS WOULD HELP THEIR DEVELOPMENT.

THE SUBCOMMITTEE RECOMMENDED THAT A PROVISION SHOULD BE ENACTED TO PROVIDE: **FOR DUTY-FREE TREATMENT OF DUTIABLE CBI PRODUCTS THAT ARE NOT PRODUCED OR ARE IN SHORT SUPPLY IN THE UNITED STATES.** SUCH A PROVISION WOULD ALLOW FOR DUTY-FREE ENTRY OF A PRODUCT WHERE THE ITEM IS NOT PRODUCED IN THE UNITED STATES, OR WHERE DOMESTIC SUPPLY IS INSUFFICIENT FOR DOMESTIC DEMAND FOR THAT PRODUCT. THE PROVISION WOULD REQUIRE BOTH THAT THE INTERNATIONAL TRADE COMMISSION (ITC) DETERMINE THAT THE PRODUCT SHOULD ENTER DUTY-FREE AND THAT THE PRESIDENT AUTHORIZE THE SUSPENSION OF THE CURRENT DUTY BASED ON THE ITC'S FINDINGS.

ANOTHER PROVISION RECOMMENDED BY THE OVERSIGHT SUBCOMMITTEE IS: **TO ALLOW A SPECIFIC VOLUME OF DUTIABLE CBI PRODUCTS TO ENTER THE UNITED STATES DUTY-FREE UNDER A "TARIFF RATE QUOTA" SYSTEM.** UNDER THE SUBCOMMITTEE'S RECOMMENDATION, ANY AMOUNT OF EXPORTS ABOVE THE SPECIFIED LEVEL WOULD CONTINUE TO BE SUBJECT TO DUTY. THE TARIFF RATE QUOTA WOULD PROVIDE DUTY-FREE TREATMENT IN AN AMOUNT AT LEAST EQUAL TO CURRENT CBI EXPORT LEVELS. A DUTY-FREE EXPORT LEVEL FOR CBI COUNTRIES CURRENTLY NOT PRODUCING SUCH PRODUCTS WOULD ALSO BE ESTABLISHED. AN ANNUAL INCREASE OF 3% AND AN OVERALL CEILING OF 5% OF WORLD-WIDE EXPORTS WOULD PROVIDE LIMITS ON THE DUTY-FREE ENTRY OF IMPORT SENSITIVE PRODUCTS.

CURRENT LEVELS OF DUTIABLE CBI PRODUCTS ARE A VERY SMALL PORTION OF WORLDWIDE IMPORTS. IN ADDITION, THOSE PRODUCTS EXEMPT FROM DUTY-FREE TREATMENT UNDER THE CBI ARE OFTEN THE CBI COUNTRIES' MOST EFFICIENTLY PRODUCED AND FASTEST GROWING EXPORTS TO THE UNITED STATES. BOTH GOVERNMENT OFFICIALS AND BUSINESS LEADERS IN THE COUNTRIES VISITED NOTED THAT THE CBI WOULD BE GREATLY ENHANCED SHOULD A SMALL ADDITIONAL VOLUME OF SUCH PRODUCTS RECEIVE DUTY-FREE TREATMENT.

ANOTHER PROVISION RECOMMENDED BY THE OVERSIGHT SUBCOMMITTEE IS: **TO PROVIDE A SEPARATE INJURY DETERMINATION FOR CBI BENEFICIARY COUNTRIES IN COUNTERVAILING DUTY AND ANTIDUMPING CASES.** CURRENTLY, IN COUNTERVAILING DUTY AND ANTIDUMPING CASES, THE ITC IS REQUIRED TO CUMULATE WORLDWIDE IMPORTS IN MAKING AN INJURY DETERMINATION. I WANT TO EMPHASIZE THAT THIS PROVISION IN THE BILL ALLOWS FOR A SEPARATE CUMULATION OF EXPORTS FOR CBI BENEFICIARY COUNTRIES, AS A GROUP. THE PROPOSAL WOULD NOT EXEMPT ANY CBI COUNTRY OR ITS INDUSTRY FROM AN INJURY DETERMINATION. IF THE ITC FOUND THAT CBI BENEFICIARY COUNTRIES HAD ENGAGED IN SUBSIDIES AND DUMPING, ALL CURRENT LAW RULES AND SANCTIONS WOULD APPLY. THE SEPARATE INJURY DETERMINATION TEST RECOGNIZES THAT, IN MOST PRODUCT CATEGORIES, IMPORTS FROM THE CBI COUNTRIES ARE, AT BEST, 2 TO 3 PERCENT OF THE TOTAL IMPORTS AND OFTEN MUCH LESS.

THE SUBCOMMITTEE ALSO RECOMMENDED: **AN INCREASE IN THE DUTY-FREE ALLOWANCE FOR U.S. CITIZENS RETURNING FROM A CBI BENEFICIARY COUNTRY OR U.S. TERRITORIES BY $200.** THIS PROVISION INCREASES THE DUTY-FREE ALLOWANCE FOR U.S. CITIZENS RETURNING FROM A CBI BENEFICIARY COUNTRY FROM $400 TO $600, AND FROM A U.S. INSULAR POSSESSION FROM $800 TO $1000. SEVERAL CARIBBEAN BASIN COUNTRIES' REPRESENTATIVES REPORTED THAT INCREASING THE DUTY-FREE ALLOWANCE WOULD HELP THEIR TOURIST INDUSTRY AND PROVIDE AN INCENTIVE FOR THE PURCHASE OF GOODS IN THE REGION.

A FINAL RECOMMENDATION OF THE OVERSIGHT SUBCOMMITTEE WAS: **THE CREATION OF A SPECIAL RULE-OF-ORIGIN FOR GOODS PRODUCED IN THE EASTERN CARIBBEAN STATES.** THIS PROVISION INCREASES FROM 15 TO 25 PERCENT THE VALUE OF U.S. COMPONENTS WHICH MAY BE COUNTED

TOWARD THE 35 PERCENT MINIMUM VALUE-ADDED REQUIREMENT IN DETERMINING ELIGIBILITY FOR DUTY-FREE TREATMENT UNDER THE CBI. THIS RULE WOULD ONLY APPLY TO THE 13 "EASTERN CARIBBEAN STATES". THE PRESENT LAW "SUBSTANTIAL TRANSFORMATION" REQUIREMENT WOULD REMAIN UNCHANGED AND PREVENT THE ESTABLISHMENT OF PASS-THROUGH OPERATIONS IN THE EASTERN CARIBBEAN STATES. THIS PROVISION WAS RECOMMENDED IN AN EFFORT TO ENHANCE THE TRADE BENEFITS FOR CERTAIN COUNTRIES IN THE CARIBBEAN BASIN REGION WHICH, THUS FAR, HAVE BEEN UNABLE TO TAKE FULL ADVANTAGE OF THE CBI TRADE BENEFITS. WE CONSIDERED THIS PROVISION AS ONE APPROACH TO EENHANCING THE ATTRACTIVENESS OF INVESTMENTS TO THOSE COUNTRIES THAT HAVE UTILIZED THE CURRENT CBI BENEFITS THE VERY LEAST.

SEVERAL PROVISIONS WERE ADDED TO THE FINAL BILL WHICH WERE NOT INCLUDED IN OUR OVERSIGHT SUBCOMMITTEE REPORT. ONE PROVISION WOULD **EXEMPT FROM DUTY AND THE TARIFF RATE QUOTA SYSTEM THOSE GOODS MADE OF 100% U.S. CONTENT; THOSE GOODS NOT PRODUCED IN THE U.S.; AND, THOSE GOODS IN SHORT SUPPLY.** A RELATED PROVISION **ELIMINATES THE REQUIREMENT THAT COMPONENTS BE FABRICATED PRIOR TO THEIR EXPORT FROM THE UNITED STATES.** THESE TWO PROVISIONS WOULD STRENGTHEN OTHER RECOMMENDATIONS ALREADY DISCUSSED. ANOTHER PROVISION WOULD **TREAT ETHANOL EXPORTS FROM CERTAIN FACILITIES IN COSTA RICA AND JAMAICA IN THE SAME MANNER AS CERTAIN U.S.-OWNED FACILITIES.** I FEEL THAT ALL OF THESE PROVISIONS INCLUDED BY OUR TRADE SUBCOMMITTEE CHAIRMAN ENHANCE THE OVERSIGHT SUBCOMMITTEE'S RECOMMENDATIONS.

A FINAL PROVISION ADDED IN THE BILL BY MR. GIBBONS IS THE **PROVISION TO RESTORE SUGAR QUOTAS FOR CBI COUNTRIES TO THEIR 1984 LEVELS.** THIS PROVISION ATTEMPTS TO ADDRESS WHAT IS CLEARLY THE MOST PRESSING CONCERN OF THE MAJORITY OF THE CARIBBEAN BASIN COUNTRIES. THE REDUCTION OF SUGAR QUOTAS AND THE FALL IN THE PRICE OF SUGAR HAS DRASTICALLY AFFECTED THE ECONOMIES OF MANY OF THESE COUNTRIES. WITH SUCH DRASTIC REDUCTIONS IN THE QUANTITY AND PRICE OF SUGAR EXPORTS, CBI BENEFITS ALONE CAN NOT CHANGE THE BALANCE-OF-PAYMENT OR BALANCE-OF-TRADE PICTURE FOR THE REGION. THIS IS PARTICULARLY TRUE GIVEN THE FACT THAT SUGAR CUTS MEAN A MAJOR REDUCTION IN FOREIGN EXCHANGE EARNINGS. ONCE AGAIN, MR. GIBBONS' PROVISION IS A MEANINGFUL AND DESIRABLE ONE. I SUPPORT MR. GIBBONS ON THIS PROVISION AS WELL THE OTHERS OUTLINED ABOVE.

MR. CHAIRMAN, I WOULD LIKE TO CONCLUDE BY SAYING THAT THIS BILL IS A POSITIVE PIECE OF LEGISLATION. IT AIMS TO ADDRESS MANY OF OUR CONCERNS AS A NEIGHBOR AND FRIEND TO THOSE COUNTRIES DIRECTLY SOUTH OF US. THEY ARE IMPORTANT TRADING PARTNERS AND POLITICAL ALLIES. THEIR ABILITY TO CONTINUE TO STRONGLY SUPPORT US DEPENDS ON THE STRENGTH OF THEIR ECONOMIES AND POLITICAL SYSTEMS. THE CARIBBEAN BASIN ECONOMIC RECOVERY EXPANSION ACT, H.R. 3101, TAKES IMPORTANT STEPS THAT WILL MAKE TRADE BETWEEN THE UNITED STATES AND OUR NEIGHBORS IN THE CARIBBEAN AND CENTRAL AMERICA MEANINGFUL AND VIABLE.

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Chairman GIBBONS. I want to thank you for that very eloquent and very fine statement. I have known you ever since you have been in Congress, and I have a great deal of respect, love and admiration for you.

Mr. PICKLE. Thank you, Mr. Chairman.

Chairman GIBBONS. Mr. Schulze.

Mr. SCHULZE. Thank you, Mr. Chairman.

I, too, would like to congratulate Chairman Pickle on his statement. I regret that something kept me from joining him on that CBI trip. I made the circuit with the chairman of the full committee some years ago, but would like to have made it with Chairman Pickle. I can however, attest to his enthusiasm upon his return.

On the road to the Caribbean, he saw the light and was very inspired by what he learned and has been an enthusiastic supporter since then. I would hope his enthusiasm is infectious, and the entire committee will feel the same way and we can work for passage of this bill as soon as possible.

I thank you for your testimony.

Mr. PICKLE. Thank you, Mr. Schulze.

Mr. GUARINI. I also want to thank you, Jake, for your good work and outstanding insight, your vision of the hemisphere is something all of us share, and thank you for having led the way.

I want to ask you: Knowing the stability of these countries in the region and the unrest that exists civilly, are these countries able to take advantage of the opportunities that we are trying to set forth for them? Are they posed? How can we make sure that a few countries won't have all the advantages and the countries that are the poorest, that need equity investment the most, will least take advantage of the opportunity?

Mr. PICKLE. I think they can take advantage of it. The main way is for us to make this a strong affirmation we are going to continue the program for a period of time. I recognize some nations can use it, can take better advantage of CBI benefits than others. The eastern Caribbean area is really at a disadvantage, in my opinion, in relation to the other islands, for example, Costa Rica and Jamaica, because they are not as large and are more isolated and their labor problem is more difficult.

But at the same time that is why I think we need to give them a little extra help. I think our bill tries to give a little extra help to the poorer nations down there by comparison. I don't guess there is any way to know whether, how much they can actually use it, but we did find this fact every place we went, that they were beginning to get into CBI, they were beginning to pursue this venture. They see it can be helpful to them, they need to diversify their economy. I think they are ready to move forward if we can pass this legislation.

Mr. GUARINI. Perhaps the catalyst can be 936 for the twin plants and infrastructure——

Mr. PICKLE. Now, that is a very general observation. I think we will be hearing a lot more about 936. What we need most from 936 are the facts, how it is working, and how it affects tax treatment treaties? We didn't get into this in this legislation simply because it is a broader issue, but very definitely a part of it. I think we will be looking at 936 to see what will be done.

Mr. **Guarini**. Jake, in regard to infrastructure, they have a dire need in the poorest countries for infrastructure. Do you address that question at all, as to how we could help them build up the basics?

Mr. **Pickle**. Well, let me add something I should have mentioned. Along with us on our trip was Congressman Douglas Bereuter, another representative at the time on the Foreign Affairs Committee. We recognized that what we do on trade is one way to help those islands.

There are other ways other committees can be a specific help in building infrastructure. The Foreign Affairs Committee has endorsed this legislation, and they have also increased their credits in other areas that affects educational grants and things of that sort.

We are working on more than just the trade aspects on this, so that the Foreign Affairs Committee is very definitely, I think, endorsing nearly every provision of this bill, so we are working together on that.

Mr. **Guarini**. I guess getting investment money down there to give them the wherewithal to expand their manufacturing base would be very important. So joint ventures, things of that sort, could be addressed by some other committees. It should be part of the package.

Mr. **Pickle**. You are right.

Mr. **Guarini**. Thank you, Jake.

Mr. **Crane**. Thank you, Mr. Chairman.

I want to commend Jake on his excellent testimony. One of the significant points I think you made was this extension of the tax and trade benefits because of the concerns you noted for a potential investor looking at a deadline and asking himself, is it really worth the investment?

The only question I would have is, couldn't that be turned around in a way that would reassure investors that this will be something in perpetuity.

I think that would be a lot more reassuring to investors and you could have qualifications, you know, barring a hostile takeover of the Government.

Mr. **Pickle**. Perhaps if we had used the rollover then that might be considered as being in perpetuity, or there might be some question about that. That is why we set on a specific number of years so we can review it as we go along, given a long enough time to know that reasonable men can make a reasonable investment, but not make it in perpetuity.

So, I think that may be the better approach.

Mr. **Crane**. You could have a qualifier in there, though, that says that this is subject to a change, but you give investors 10 years' lead notice or whatever.

Mr. **Pickle**. That is right.

Mr. **Crane**. If you were going to review individual cases and possibly consider a change. The thing that I am a little concerned about is, say you get 2007 as the termination date. You are encountering the same kind of problem, and that is the closer you get to the date, the more skittish investors are apt to be.

If they knew that they could make that investment and that the only circumstance that would change it would be positive action by

Congress, and then they would have 10 years to readjust their plans, that that would be more reassuring.

It is not really in perpetuity. It is in perpetuity subject to a determination contrary to objection by the Congress.

Mr. PICKLE. That is right, Mr. Crane. I think the Congress, as we get closer to that 2007 date, will be considering what to do in advance. I think you and I ought to make a pact right now, we will be on hand to try to direct Congress in 2007 what to do.

Mr. CRANE. I want to commend you on your testimony, and also your stand on sugar as well. Appreciate your testimony.

Mr. PICKLE. Mr. Chairman, thank you very much.

Chairman GIBBONS. Thank you, Mr. Pickle, and your statement as well as Governor Graham's statement, will be included in the record.

Mr. PICKLE. Mr. Frenzel has arrived and I want to compliment him, because he has been very helpful in advancing this measure. I appreciate his cooperation. Mr. Schulze has been very helpful, because although he wasn't able to make the trip, he has made other trips down there, and I know of his specific concern. I appreciate his cooperation.

Thank you, Mr. Chairman.

Mr. FRENZEL. I just wanted to return the compliment and say that if it were not for the gentleman's subcommittee work, we wouldn't be into this, and I just do whatever he and Mr. Guarini tell me to do.

Chairman GIBBONS. Thank you, Mr. Pickle.

Next we have a panel of witnesses: the Honorable Muni Figueres, who is the Minister of Foreign Trade from the Government of Costa Rica; and the Honorable Ken Gordon, who is the Minister of Industry and Enterprise from the Republic of Trinidad and Tobago.

Would you like to proceed first, Mrs. Figueres?

STATEMENT OF HON. MUNI FIGUERES DE JIMENEZ, MINISTER OF FOREIGN TRADE, GOVERNMENT OF COSTA RICA

Mrs. FIGUERES DE JIMENEZ. Thank you, Mr. Chairman.

Mr. Chairman, Honorable Congressmen, it is a great pleasure for me to participate in this first hearing on the recently proposed Caribbean Basin Economic Recovery Expansion Act of 1987, and I thank you especially, Mr. Chairman, for the early timing of this hearing, and all of you for the opportunity to express the views of the countries of the region regarding this bill.

I must say that the environment that surrounds this hearing is so constructive and so positive and the discussion is so well-placed in a broad developmental context that takes into account geopolitical security and business aspects, that I might indulge in some Latin exaggeration and state that next to being in heaven, this is where I would rather be more than anywhere else.

For me personally, it is most gratifying and heart-warming to be among what I consider or dare to consider my friends, friends of Costa Rica and friends of the CBI. We have submitted documents detailing the position of our countries with respect to the bill, and hope they will serve to achieve a legislation of benefit to future trade relations between the United States and the beneficiary nations.

But I would like briefly to refer to the issues addressed in these documents in representation of the Central American nations.

To begin with, we would like to emphasize our appreciation for the initial CBI legislation. We firmly believe that the administration proposed this program in recognition of the economic difficulties of the region and the subsequent approval by Congress confirm the support and understanding in this respect of the U.S. authorities in the legislative branch.

Today, we discuss a bill that reaffirms your country's commitment by continuing to place specific attention on our region in these difficult political and economic times. We endorse the incisive and well-focused statements made up to now here today by Chairman Gibbons, by Congressman Guarini, Congressman Schulze and Congressman Crane, Senator Graham, and Congressman Pickle, and we hope to hear from Congressman Frenzel.

We feel that one of the reasons the original CBI legislation and this new proposal are so responsive to our needs is because the U.S. authorities have systematically surveyed our views on it.

This has been a model for cooperation between the United States and the CBI friends. The beneficiary countries believe that this giant effort has fostered a new sense of community among us that will contribute to another common goal of the United States and its neighbors, the climate of peace and stability we all desire.

Therefore, we have organized our efforts in order to continue work towards the establishment of mechanisms such as those proposed by the bill, as they will have a significant bearing on our future as trading partners of the United States.

The proposal we address today, which we fully support, is of utmost importance to our goals of economic recovery through trade. This is principally due to the access it intends to provide to goods that presently cannot be introduced competitively in the U.S. marketplace when charged with established import duties.

It also places into perspective the impact of imports originating in the Caribbean Basin, through such provisions as separate cumulation in injury determinations for products exported from the beneficiary countries, elimination of import quotas under certain conditions, and restoration of the region's sugar quota to the levels it enjoyed in 1984.

Finally, the extension for an additional 12 years of the program will offer a sense of security to CBI-based investments, as Congressman Pickle pointed out. Our countries have dedicated substantial time and resources to encouraging the development of nontraditional exports, particularly emphasizing the U.S. market and the benefits offered by the CBI.

Our experience through these first 3 years has led us to conclude that the program has created a new outlook toward increased economic relations between the United States and our region, and in this respect, I think Costa Rica is surely a CBI success story.

Now we are at a turning point that will determine whether the Caribbean Basin Initiative makes a permanent contribution to economic recovery and sustained growth a key to the maintenance of long-term peace and stability in the region.

The provisions set forth in the bill will help us to reach this common goal. We are, however, preoccupied with two or three areas that are fundamental to the economically productive activity of many of our countries, and thus would like to address them more specifically at this moment.

With respect to the present sugar quota, we must emphasize that long-term options are necessary in order to offer a more stable outlook for countries. Therefore, we ask your support and that of the administration in order to arrive at a permanent and viable solution to the eliminations applied to imports of sugar, CBI sugar, in the United States.

But meanwhile, and as an immediate short-term solution, we ask for support an amendment mentioned by Senator Graham, passed by the Senate, providing sugar import assistance for CBI beneficiary countries through a special reexport program. That is a 1-year program.

In regard to coffee, we are concerned that the implementing legislation to the international coffee agreement has suffered delays due to its inclusion in the pending omnibus trade bill; therefore, we urge the Congress to seek an alternative that will provide the U.S. Government with full authority to implement the ICA as it is vital to the stabilization of coffee prices on the world market and subsequently to our exports of this product.

With respect to ethanol, we fully support the amendment provided for in the CBI–II bill (H.R. 3101) to grandfather certain ethanol plants in Jamaica and Costa Rica from the present limitation to export that product to the United States; as well as support for the amendment of Congressman Matsui in bill H.R. 3545 to fix permanently at 30 percent, the value of CBI feedstock which is required in CBI ethanol blends.

Finally, we look for your support and that of the administration to this bill now pending before Congress, particularly in preventing any weakening of the provisions that this subcommittee, after full consideration of the facts regarding past effectiveness of the program, has included.

As Chairman Gibbons stated when introducing the bill before Congress,

> I believe this is a good bill, one that seeks to strengthen economic rather than military ties with our neighbors in the Caribbean and Central American region. It is necessary not only for the economic development of the CBI, but also for U.S. security and economic interests in the region.

We, too, Honorable Congressmen, urge you to review the legislation and our testimonies and to offer your support for this enactment. Thank you very much.

[The statement of Mrs. Figueres de Jimenez follows:]

STATEMENT BY MUNI FIGUERES DE JIMENEZ, MINISTER OF TRADE OF COSTA RICA TO THE SUBCOMMITTEE ON INTERNATIONAL TRADE, COMMITTEE ON WAYS AND MEANS

GENERAL STATEMENT

In 1983, the U.S. Government enacted an innovative program aimed to assist the economic recovery of Central America and the Caribbean.

The Caribbean Basin Initiative (CBI) provided duty-free access to the U. S. market for a broad range of goods produced in the region. In turn, the countries were to help themselves develop exports to the U.S. market.

The Reagan administration presented a comprehensive proposal which was eventually passed by Congress. However, important products were excluded from the final law, causing disappointment to both proponents and beneficiaries of the CBI.

Despite these shortcomings, CBI beneficiary nations have taken self-help measures to implement the program. We have embraced the CBI because of its promise to help solve such economic problems as high unemployment, foreign exchange shortages and heavy debt burdens.

The CBI has helped to create an awareness of business opportunities in the region. Some progress has been made in investment and exports, but the potential for growth has not yet been achieved.

First, it takes time to develop new productive activities. Secondly, those goods with the greatest immediate potential for export are excluded from the CBI. Finally, the program does not cover non-tariff barriers which today are more restrictive than the tariff barriers addressed by the CBI.

However, prospects for the future are bright. Congress is considering legislation which would enhance CBI through such measures as increased market access for those goods excluded from the original law.

The CBI beneficiary nations endorse the intent of the new bill. However, the countries believe some modifications and additions would strengthen the proposal. For example, the bill does not address problems in tourism, transportation and investment in the Caribbean Basin.

As requested, we are transmitting some of our recommendations on CBI-II. We hope the Congress and the Reagan Administration will incorporate these views in their positions on the bill. We urge the Congress and the U.S. Administration to oppose the elimination or weakening of important provisions of CBI-II in order to placate protectionist groups in the United States. We believe any necessary compromise should be negotiated among all interested parties.

We have also reviewed the CBI sections of the Omnibus Trade Bill and expect these will also be considered.

BENEFICIARY COUNTRY POSITION PAPER ON THE CARIBBEAN BASIN ECONOMIC RECOVERY EXPANSION ACT OF 1987

The CBI beneficiary countries welcome the introduction into Congress of the Caribbean Basin Economic Recovery Expansion Act (H.R. 3101/S. 1594).

We believe that H. R. 3101 contains many provisions which, if enacted, would go a long way towards correcting several of the weaknesses of the original CBERA. In particular, we welcome the Bill's bid to restore the region's sugar quota to its 1984 level; the provision for separate injury determination for CBI countries in countervailing duty and anti-dumping cases; the proposals to expand duty-free access for CBI goods; and the proposal to extend the CBI for an additional twelve years.

Below are our specific comments and suggestions on some of the Bill's provisions and related initiatives:

Section 3 - United States Content of Beneficiary Countries' Products

The Special Rule of Origin for Eastern Caribbean States will be of benefit to these countries which, because of their small size and relatively less developed economies, have not been able to take full advantage of the incentives offered by the CBI.

We strongly recommend that the Special Rule of Origin should be extended to Belize which experiences many of the special difficulties faced by the Eastern Caribbean countries and which is already recognized as an LDC state by CARICOM. Belize's economic development is hampered by a number of factors including small population; poor infrastructure and an underdeveloped industrial sector.

The provision, however, does not address one of the major drawbacks facing the Eastern Caribbean countries - the lack of a well-developed infraestructure. There is therefore an urgent concomitant need for increased aid for infrastructural improvements to be channeled to these countries, without which the Special Rule of Origin will have little or no impact.

The question of substantial transformation requirements also needs to be addressed if any meaningful investment is to be attracted and sustained in the Eastern Caribbean and indeed in all CBI countries. Customs interpretation of substantial transformation requirements are often unpredictable and the uncertainty that this involves is often a disincentive to long term investment.

Section 4 - Treatment of Exempt Articles

This provision proposes to extend limited duty-free treatment to certain articles that fulfill three requirements.

The articles in order to be eligible -

i.- must not be produced in the U. S., or

ii.- must not be produced in the U. S. in sufficient quantities to meet domestic demand, and

iii.- must not directly compete with any other articles produced in the U. S.

These three conditions severely restrict the scope of this provision and for all practical purposes would be of no benefit to CBI countries. If one looks at the list of articles currently exempt from duty-free treatment to which this provision should apply, one cannot envisage that any of these would ever qualify under the above conditions.

Section 4 (d) (1) - Tariff Rate Quota

While we welcome the principle behind this provision, we believe that the quota, as presently formulated, would prove to be too restrictive. The formula for calculating the base severely limits those countries with no history of exports of a particular product and would also seem to preclude any extension of duty-free treatment to products which had not before been exported by a CBI country. We would suggest instead that some minimum quantitative base should be established, as this would allow for and indeed encourage the development of new, non-traditional export products.

Furthermore, the additional limitation that goods entering duty-free under this quota should not exceed in any one year 5% of the aggregate quantity of articles of that kind exported from all beneficiary countries further erodes the scope of this provision and should be reviewed. No country specific limit should apply, until the calendar year following a year in which CBI aggregate trade achieves the required cap. i.e. five per cent of U. S. global imports of the excluded product.

Section 7 - Special Tariff Treatment fo Beneficiary Country Products

While we welcome the proposal to gain duty-free and quota-free treatment for goods made from 100% American components, we believe that this treatment should also be extended to products made from 100% Caribbean materials or from a combination of Caribbean and American inputs. This would be of mayor benefit to the smaller Caribbean producers who use local inputs and would also stimulate demand for these inputs. At the same time this liberalization would have no significant effect on U.S. production since the Caribbean does not produce raw materials in sufficient quantities to affect U.S. industries.

Additionally, we consider that the 100% requirement is restrictive in cases where raw materials are not available in the United States and the CBI,therefore, we propose that an allowance be made for the inclusion of 25 % of materials from third countries.

Section 7 (b) - Duty-Free Allowance for Returning Residents

We welcome the $200 increase in the duty-free allowance given to returning U.S. citizens from the region and we would hope that this margin of advantage will be maintained in the event of future increases in the general allowance. However, it seems somewhat restrictive to allow only one litre of alcoholic beverages per individual. We should like to propose that this allowance be increased to three litres for alcoholic beverages that are indigenous to the region.

Section 5 - Reports by Beneficiary Countries

While we recognize that an ongoing refining of the CBI will require a regular flow of information between the business sectors and governments, our governments do not agree that a legislative mandate from the U.S. Congress requiring a reporting activity on the part of governments of CBI countries is appropiate or acceptable.

Other Aspects:

Tourism

We should like to point out also that since tourism is such a vital industry for many of our countries its continued exclusion from CBEREA will significantly reduce the impact that this initiative could have on the economies of the region. There are a number of areas in which U.S. policy and initiatives could be beneficial to the development of tourism and we would urge that these would be given due consideration in the debates on H. R. 3101. Attached as an Annex there is a list of these proposals.

Origin Regulations - Need for a Waiver Mechanism

Some new industrial projects with good long term export potential may initially find it difficult to comply with the CBI's origin criteria.

We would propose that the CBI consider waiving the origin criterion on a case by case basis for a fixed period of time. This convention is currently acceptable under LOME.

Ethnic Exclusion from Agricultural Quotas

The Bill should exempt certain CBI ethnic products from U.S. agricultural quotas such as milo from the sugar quota and certain products for ethnic consumption from the dairy quotas.

Transportation

Transportation of goods from the CBI countries to the U.S. and other markets has proven to be an obstacle for export development of the region, particularly in terms of the high rates and tariffs that our countries are subject to. We would suggest consideration of appropriate legislative initiatives to ameliorate the problem.

Sugar

No discussion about the Caribbean Basin Initiative would be complete without examination of the subject of sugar. Sugar is the major cash crop in many CBI countries, and it is the second major source of foreign exchange earnings and employment for CBI countries. Thus, it is clearly vital to the economic growth and well-being of our region.

However, since 1982, foreign exchange earnings from sugar have plummeted for the CBI region. Over the last five years, U.S. imports from the CBI region and Philippines have declined by more that 70 percent. The last round of quota cuts announced in December of 1986 represented a 41 percent reduction in quota and the lowest level in 100 years.

In view of the devastating and continuing effects that such reductions have in CBI countries and in light of the anticipated further reductions in that sugar quota to be announced shortly, immediate relief is clearly needed. We ask your support and that of the Administration to find viable and permanent solutions to CBI Sugar in the U.S. market.

Coffee

Five of the Caribbean countries - Costa Rica, Haiti, Dominican Republic, Jamaica and Barbado - depend on coffee exports for a substantial part of their income. Over the past 25 years, coffee prices have been in general stabilized by the International Coffee Agreement. However, the U.S. Congress has failed to provide the implementing legislation for the last three years of the six-year treaty. This essential legislation expired on Sept. 30, 1986, and has failed to clear Congress, even though there is no opposition nor any additional cost to the U.S. government.

We urge Congress to remove the coffee implementing legislation from the Omnibus Trade Bill, in which it is now locked, so that this essential measure can be approved by Congress before ending its current session.

ANNEX

1.- Technical Assistance and Educational Programs.

Financial support should be provided for Tourism Training Institutions located in CBI countries and to tourism training programs available at U.S. institutions of higher learning, such as those programs presently offered at the University of Michigan, the University of Las Vegas, the University of Hawaii, Cornell and Buffalo Universities in New York and Florida International University. All governments of CBI countries agree that to realize and sustain the maximum growth potential of tourism, training of managers and staff in all aspects of the tourism industry is imperative.

2.- Tourism Facility for Investment Opportunities

The CBI countries would welcome the establishment of a data bank under the auspices of USAID or OPIC which would maintain a record of the tourism development plans of CBI beneficiary countries. Potential investors could then use these plans to examine investment project feasibility.

3.- Tourism Marketing Facility

Such a facility would produce materials and publications tied to CBI countries promotional strategies. It could further assist in the coordination of a joint marketing and joint packaging program to link tourism in the Southern United States to tourism in CBI designated countries.

4.- The Department of Commerce could be instructed to undertake a study on Economic Develpment and Tourism Industries in the CBI countries and make a final report to the U.S. Congress. Such a study could include information on the mutual benefits received by the U.S. and Caribbean Basin Country economies as a result of tourist activity in the area (i.e. economic advantages enjoyed by U.S. owned and operated travel agencies, airlines, hotel chains and increased exports of tourist related products to the CBI countries).

5.- Onboard Convention Tax Exemption

Extension of the Convention Tax Exemption benefit to Cruise-ships which spend a specific percentage of their port days at CBI designated countries. This consideration would be of particular benefit to beneficiary countries with limited onshore Convention facilities.

6.- Consideration may also be given to extending tax concessions to U. S. investors in the CBI countries, who grant tourism related fellowships / scholarships to residents of CBI countries to improve their tourism product.

7.- Increase Alcoholic Beverage Allowance

Complementary to the proposed increase in the dutiable allowances for U.S. visitors returning from CBI designations, consideration may be given to increasing the amount of non-dutiable alcohol allowed United States residents returning from CBI designation.

CARIBBEAN BENEFICIARY COUNTRY POSITION ON OMNIBUS TRADE BILL

(H.R. 3 AND S. 1420)

We the Caribbean Basin countries have followed with keen interest the progress of the Omnibus Trade Bills (H.R. 3 and S. 1420). At this crucial time, when efforts are being made to reconcile the two versions into a single bill, we take the opportunity to offer our views on the following aspects of the Bills, which are of particular concern to the region:

1.- Extension of the CBERA - S. 1420 has a provision in Section 955 which extends the CBERA for 12 years from the date of enactment of the Trade Bill. This would mean, in effect, an extension of only four years(1995-1999).

It is our view that four additional years are inadequate to sustain a climate conducive to long-term investment. Moreover this short extension does not allow the lesser developed countries of the region sufficient time to improve their infrastructure in order to take full advantage of the benefits of the CBI - which was identified in the Oversight Subcommittee's Report as a major cause for the ineffectiveness of the CBI.

We are also concerned that the extension granted in the current language applies only to duty-free benefits and not to the tax and investment incentives contained in the CBERA. We feel strongly that at the minimum, an extension of twelve years beyond the expiration date of 1995 would better allow the objectives as set out above to be realized.

2.- Sense of Congress Resolution (Section 346 in H.R. 3 and Section 953 in S. 1420).

We note with satisfaction that both the House and Senate Bills contain language that recognizes the need to preserve the integrity of the CBERA. accordingly, we submit for your consideration the following synthesis of both versions which in our opinion would best serve the interest of the CBI beneficiary countries.

PROPOSED TEXT FOR SENSE OF THE CONGRESS RESOLUTION

Preamble would remain as stated in Senate Version. Operative paragraphs would read as follows:

INTENT OF THE CONGRESS.- The Congress hereby expresses its intention to ensure that this Act should preserve the integrity of the Caribbean Basin Economic Recovery Act. In fulfilling this objective, the Congress wishes to ensure that:

1.- The Trade elements of the CBI be strengthened in a manner consistent with the promotion of economic and political stability in the Caribbean and Central America.

2.- To the extent that Congress imposes changes that are intended to improve the competitive environment for American industries and workers, such changes should not adversely affect the unilateral duty-free trade system available to the beneficiary countries designated under that Act.

3.- In addition, because of the small number of articles of countries of the Caribbean Basin that are currently entering the United States market, changes in the trade laws of the United States should not in any way impose an additional burden on the ability of those articles of such designated beneficiary countries to compete with exports from major United States trading partners. It is in the economic and security interests of the United States to maintain this commitment to the countries of the Western Hemisphere as contained in the Caribbean Basin Economic Recovery Act.

3.- Suspension of CBI Benefits (Section 193 of H.R. 3)

We also note that the House Bill contains a provision amending section 212(e) of the CBERA which would authorize the President to withdraw, suspend or limit duty-free treatment with respect to any article from any CBI country, as an alternative to withdrawing or suspending their designation as a beneficiary country, if changed circumstances would bar such designation.

We believe that the existing law is adequate. Few if any problems concerning designation criteria have arisen and these have been successfully resolved through negotiation. Furthermore, while the loss of eligibility in the current law has not been a significant disincentive to investment, the proposed provision is likely to be. Our fear is that such a provision could lead to a situation where the existing mechanisim in U.S. Trade Law for redressing perceived injury may be circumvented, in favour of invoking a statute regulating an assymetrical relationship between donor and beneficiary country.

Such a situation would undermine investor confidence since the security of every concession within the program may be called into question.

4.- Expansion of Free Trade Area.- (Section 109 of S. 1420)

While recognizing the desireability of removing barriers to trade, the reciprocal nature of this recommendation is not considered to be in the best interest of the CBI beneficiary countries because it would further exacerbate the current trade imbalance of the region with the United States and would run counter to both the objectives of the CBI as well as to the principle of preferential treatment for developing countries.

It is our hope that these recommendations can be accomodated in the final language of the trade legislation.

/imoz

Chairman GIBBONS. Thank you very much. You are certainly a fine representative of your very fine country.

And now Mr. Gordon.

STATEMENT OF HON. KEN GORDON, MINISTER OF INDUSTRY, ENTERPRISE AND TOURISM, REPUBLIC OF TRINIDAD AND TOBAGO

Mr. GORDON. Mr. Chairman, may I, on behalf of CBI countries, thank you for this opportunity to communicate at first hand our views on a program which we are convinced can make the difference to our fragile economies of growth instead of stagnation, self-respect instead of dependence, and stability instead of vulnerability to the ravages of poverty, a condition which has implications for the entire Hemisphere.

More pointedly, this critical contribution to the objective of a prosperous and peaceful region can be achieved without dislocation to the U.S. economy, for trade with the Caribbean and Central America is an insignificant fraction of your overall trading activity.

Unfortunately, the CBI has not fulfilled the high expectations which attended its birth, but I shall not spend time going over ground with which you are already familiar. What is important are the new and encouraging developments so clearly manifested by the proposed new bill and hearings which have begun today.

We are therefore most appreciative of your initiative, Chairman Gibbons, and of the strong support of the friends of the Caribbean in both Houses of Congress. At the risk of being invidious, we must record our appreciation to Chairman Pickle, in whose report this bill had its genesis.

It is a little-publicized fact that the debt burden facing the countries of the Caribbean Basin is as great as, or even greater in proportional terms, than that of the larger countries.

Yet our countries continue to make the sacrifices necessary to service this debt. Against a background of reduced room for maneuver, the debt burden is crippling; and without easy access to official development assistance, the only answer is exports.

The overwhelming economic priorities in the region are for a rapid growth of this sector and the creation of jobs. My own country provides a classic illustration of a nation with the potential for generating self-sustaining growth, the political will to make the decisions that are necessary to bring this about but which is confronted with a worsening unemployment problem which can only be successfully addressed by an expansion of exports.

Basically, this means foreign investment and access to markets. So that as diligently as we may address, and have addressed, the creation of attractive investments and economic infrastructure, these efforts, this new direction based on the development of individual effort and enterprise, which are common to the vast majority of CBI countries, may well be frustrated with horrendous consequences for the hemisphere without the helping hand your Nation is so well poised to extend.

The CBI II proposals address this problem very directly. The legislation would relieve us of quota restrictions on products made from U.S. materials, and remove the duties on these products.

We would urge that this benefit be extended to items made exclusively from Caribbean materials and those made from a combination of Caribbean and U.S.-origin materials which are now excluded. Since few CBI countries produce material inputs in quantities of any significance, the effect of U.S. industry would be of no material consequence. We therefore endorse the decision of the meeting of CBI ministers held in Miami recently on the exemption of those products from agricultural quotas.

In the case of excluded products made of imported materials, the legislation grants a partial duty-free exemption, that is, a duty-free tariff rate quota. This is a valuable addition to the CBI, and although we would prefer no ceiling on the aggregate quantity of CBI imports which can benefit from this treatment, we like the provisions because it demonstrates the judgment of Congress that preferential access within this ceiling could not cause injury to U.S. domestic industries.

We hope you will consider modifying the duty-rate quota provision so that country-specific limits would not apply until the aggregate ceiling has been reached. The legislation as now drafted makes no allowance for a duty-free quota for products which are not now produced in any of the beneficiary countries. We think this to be an oversight which can be easily remedied.

Mr. Chairman, the sugar provision in CBI II is so vital to the economies of Caribbean Basin countries that I could not possibly do justice to this issue in the space of this brief testimony this morning.

This provision could be the first of several policy reforms which would, in combination, provide a balance between the needs of the CBI beneficiaries, the users of our sugar in the United States, and U.S. domestic producers, who need to be paid a fair price for their sugar. The chairman of the CBI Sugar Group will, I know, be addressing the question of sugar in depth in later testimony. So I shall leave further comment to him.

The CBI II also contains a provision which would reduce the difficulty encountered by eastern Caribbean countries in meeting the value-added criteria of the CBI rule-of-origin. We are pleased that the committee wishes to make special efforts to help these countries take advantage of CBI benefits, and we hope that Belize will also be included under this provision.

However, members of the committee should be aware that without increased funding of infrastructural development in these least developed countries, the special rule-of-origin will have little or no impact. We therefore urge that special consideration be given to that concern.

We particularly welcome the provisions relating to the cumulation criteria of the injury test. Currently, imports under investigation by the ITC are cumulated from all countries exporting a specific product to the United States in order to determine injury to a domestic industry. If the exports of any CBI country, insignificant as they are, are cumulated with those of a major foreign supplier, those exports will be found to be injuring the U.S. industry and therefore restrained.

The new bill provides for a separate injury determination, and since CBI countries provide only a small portion of total U.S. imports in any product category, the probability of an injury determination against CBI exports would be vastly reduced.

We are gratified that the Congress has recognized this inequity and now proposes to correct this situation.

We would also like to take this opportunity to indicate our support for provisions in the omnibus trade bill affecting the CBI, particularly those provisions expressing the sense of Congress that the provisions in the CBI should be maintained and should be improved.

We are concerned, however, about the provision in the trade bill which would put each CBI benefit in jeopardy in case of an economic dispute with the United States and hope that this provision might be dropped. We suggest that the spirit which has clearly motivated the amendments proposed in CBI II could be compromised by a provision which may be perceived as comparable to using an elephant to kill a fly.

Finally, we welcome the extension of the CBI to the year 2007. We certainly envisage that by then, our economic partnership will have advanced to the point where a unilateral program of trade and investment concessions will no longer be the cornerstone of our economic development.

Permit me, therefore, to make reference to one particular area not addressed in the new bill. I refer to tourism.

Caribbean countries have a major interest in the development of the tourism industry. We have come to recognize in it a key to unlocking foreign investment, foreign exchange earnings and stimulation and modernization of our economies.

We would very much wish to see provisions in the bill designed specifically to benefit the tourism sector. We have already submitted to this committee our recommendations in this regard, and we urge that they be given favorable consideration.

It is a commentary on the openness of your society and your system that the CBI, an initiative of your President and your government, has been so strongly criticized, in many cases by the intended beneficiaries. This is perhaps a measure of the respect in which we hold your democratic traditions.

Let me emphasize that we are indeed mindful of the realities with which you have to contend, not the least being the domestic considerations to which you must be sensitive. We understand the concerns with which special interest groups, however narrow their perspectives, must be addressed.

Nonetheless, we are confident that the proposed new bill will likewise ensure tangible return benefits to your economy. As the dominant trading nation in the hemisphere and the world, the United States has a vested interest in growth and must inevitably be the major beneficiary of whatever wealth is generated in CBI countries.

Mr. Chairman, we congratulate Congress on its new and enlightened approach to the CBI and, in wishing that this legislation receive speedy and successful passage, we ask that our appreciation be placed on record.

Thank you.

[The statement of Mr. Gordon follows:]

TESTIMONY OF SENATOR THE HONOURABLE KEN GORDON, MINISTER OF INDUSTRY, ENTERPRISE AND TOURISM OF THE REPUBLIC OF TRINIDAD AND TOBAGO, BEFORE THE SUB-COMMITTEE ON TRADE, COMMITTEE ON WAYS AND MEANS, UNITED STATES HOUSE OF REPRESENTATIVES

MONDAY, DECEMBER 14, 1987

Mr Chairman, may I on behalf of CBI countries thank you for this opportunity to communicate at first hand our views on a programme which we are convinced can make the difference to our fragile economies - of growth instead of stagnation, self-respect instead of dependence, and stability instead of vulnerability to the ravages which attend poverty - a condition which has implications for the entire Hemisphere. More pointedly, this critical contribution to the objective of a prosperous and peaceful region can be achieved without dislocation to the US economy for trade with the Caribbean and Central America is an insignificant fraction of your overall trading activity. Unfortunately, the CBI has not fulfilled the high expectations which attended its birth, but I shall not spend time to go over ground with which you are already familiar. What is important are the new and encouraging developments so clearly manifested by the proposed new bill and hearings which have begun today. We are therefore most appreciative of your initiative, Chairman Gibbons, and of the strong support of the Friends of the Caribbean in both Houses of Congress. At the risk of being invidious, we must record our appreciation to Chairman Pickle, in whose report this bill had its genesis.

It is a little publicised fact that the debt burden facing the countries of the Caribbean Basin is as great as, or even greater in proportional terms than, that of the larger countries.

Yet our countries continue to make the sacrifices necessary to service this debt. Against a background of reduced room for manoeuvre, the debt burden is crippling; and without easy access to official development assistance the only answer is exports.

The overwhelming economic priorities in the region are for a rapid growth of this sector and the creation of jobs. My own country provides a classic illustration of a nation with the potential for generating self-sustaining growth, the political will to make the decisions that are necessary to bring this about but which is confronted with a worsening unemployment problem which can only be successfully addressed by an

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expansion of exports. Basically, this means foreign investment and access to markets. So that as diligently as we may address, and have addressed, the creation of attractive incentives and economic infrastructure, these efforts, this new direction based on the development of individual effort and enterprise, which are common to the vast majority of CBI countries, may well be frustrated with horrendous consequences for the Hemisphere without the helping hand your Nation is so well poised to extend.

The CBI II proposals address this problem very directly. The legislation would relieve us of quota restrictions on products made from US materials, and remove the duties on these products. We would urge that this benefit be extended to items made exclusively from Caribbean materials and those made from a combination of Caribbean and US-origin materials which are now excluded. Since few CBI countries produce material inputs in quantities of any significance, the effect of US industry would be of no material consequence. We therefore endorse the decision of the meeting of CBI Ministers held in Miami recently on the exemption of those products from agricultural quotas.

In the case of excluded products made of imported materials, the legislation grants a partial duty-free exemption, i.e., a duty-free tariff rate quota. This is a valuable addition to the CBI, and although we would prefer no ceiling on the aggregate quantity of CBI imports which can benefit from this treatment, we like the provisions because it demonstrates the judgement of Congress that preferential access within this ceiling would not cause injury to US domestic industries.

We hope you will consider modifying the duty-rate quota provision so that country-specific limits would not apply until the aggregate ceiling has been reached. The legislation as now drafted makes no allowance for a duty-free quota for products which are not now produced in any of the beneficiary countries. We believe this to be an oversight which can be easily remedied.

Mr Chairman, the sugar provision in CBI II is so vital to the economies of Caribbean Basin countries that I could not possibly do justice to this issue in the space of this brief testimony. This provision could be the first of several policy reforms which would, in combination, provide a balance between the needs of the CBI beneficiaries, the users of our sugar in the United States, and US domestic producers, who need to be paid a fair price for their sugar. The Chairman of the CBI Sugar Group, will, I know, be addressing the question of sugar in depth in later testimony.

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The CBI II also contains a provision which would reduce the difficulty encountered by Eastern Caribbean countries in meeting the value-added criteria of the CBI rule-of-origin. We are pleased that the Committee wishes to make special efforts to help these countries take advantage of CBI benefits, and we hope that Belize will also be included under this provision. However, Members of the Committee should be aware that without increased funding of infrastructural development in these least developed countries, the special rule-of-origin will have little or no impact. We therefore urge that special consideration be given to this concern.

We particularly welcome the provisions relating to the cumulation criteria of the injury test. Currently, imports under investigation by the ITC are cumulated from all countries exporting a specific product to the United States in order to determine injury to a domestic industry. If the exports of any CBI country, insignificant as they are, are cumulated with those of a major foreign supplier, those exports will be found to be injuring the US industry and therefore restrained.

The new bill provides for a separate injury determination, and since CBI countries provide only a small portion of total US imports in any product category, the probability of an injury determination against CBI exports would be vastly reduced.

We are gratified that the Congress has recognized this inequity and now proposes to correct this situation.

We would also like to take this opportunity to indicate our support for provisions in the omnibus trade bill afffecting the CBI, particularly those provisions expressing the sense of Congress that the provisions in the CBI should be maintained and should be improved. We are concerned, however, about the provision in the trade bill which would put each CBI benefit in jeopardy in case of an economic dispute with the United States and hope that this provision would be dropped in Conference. We suggest that the spirit which has clearly motivated the amendments proposed in CBI II could be compromised by a provision which may be perceived as comparable to using an elephant to kill a fly.

Finally, we welcome the extension of the CBI to the year 2007. We certainly envisage that by then our economic partnership will have advanced to the point where a unilateral programme of trade and investment concessions will no longer be the cornerstone of our economic development.

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Permit me therefore to make reference to one particular area not addressed in the new Bill - I refer to tourism.

Caribbean countries have a major interest in the development of the tourism industry. We have come to recognize in it a key to unlocking foreign investment, foreign exchange earnings and stimulation and modernization of our economies. We would very much wish to see provisions in the Bill designed specifically to benefit the tourism sector. We have already submitted to this Committee our recommendations in this regard and we urge that they be given favourable consideration.

It is a commentary on the openness of your society and your system that the CBI, an initiative of your President and your Government, has been so strongly criticised, in many cases by the intended beneficiaries. This is perhaps a measure of the respect in which we hold your democratic traditions.

Let me emphasise that we are indeed mindful of the realities with which you have to contend, not the least being the domestic considerations to which you must be sensitive. We understand the concerns with which special interest groups, however narrow their perspectives, must be addressed. Nonetheless, we are confident that the proposed new Bill will likewise ensure tangible return benefits to your economy. As the dominant trading nation in the Hemisphere and the world, the United States has a vested interest in growth and must inevitably be the major beneficiary of whatever wealth is generated in CBI countries.

Mr Chairman, we congratulate Congress on its new and enlightened approach to the CBI, and, in wishing that this legislation receive speedy and successful passage, we ask that our appreciation be placed on record.

Chairman GIBBONS. Thank you, Mr. Gordon.

I want to say to both of you, you have given very fine and very powerful testimony, and you show that you have put a great deal of thought into the remarks you have made. Let me assure you, we recognize no piece of legislation that we draft is perfect, and we welcome your suggestions and your criticism and hope we can profit by them.

I know we have got a fight on our hands in passing parts of this legislation, but I feel it is important that we go ahead in doing that. I hope that our friends in the Caribbean will not interpret the intramural fight in the United States over some of the provisions of this bill as being hostile to them. We are touching some very significant nerves. We touched sugar. We touched garments and we know that.

So, we are going to have a pretty tough intramural fight ourselves here. But we want to assure you it is not directed at you. It is directed at the policies that we are advocating. I hope that we can get this bill passed within the next year. I believe that we can.

I am sorry that we had to cancel Ambassador Yeutter this morning, mainly because of real estate problems. We must give up this room in another half an hour. But we will take his testimony up as quickly as we can, perhaps this week, and then try to hear the rest of the people who want to be heard on this subject matter, particularly the opponents.

But we are off to a good start, and I commend both of you for the statements you have made.

Mr. Guarini.

Mr. GUARINI. Madam Minister, I want to thank you for the fine treatment you gave the Speaker and the congressional delegation and myself when we were down in Costa Rica just a few days ago. I think Costa Rica has benefited greatly from your talents and energies in the trade area, and I want to thank you for the great friendship that you have extended to us. That is reciprocated by the warmth of our feeling toward you and the people in Costa Rica.

I have maintained the basic premise that the CBI is good business for the United States as well as the Caribbean Basin area, aside from even all the national security and military interests that we would talk about, and it would be based upon the fact it is mutually beneficial from a good business viewpoint.

We have a trade balance in that area and in these 22 nations, 40 million people, to develop a strong economic base can only ensure a better standard of living for everyone, including the United States, so I feel there are good markets and that we could benefit from each other.

Is there a way to encourage a greater unity of working together with the countries in the Basin area? Europe has done it with the Common Market. Are there any efforts that are being made?

Is there a way for these countries, instead of being competitive with each other, to really work together as a unit to develop their own common market and commonality of interest? Can you expound on that?

Mrs. FIGUERES DE JIMENEZ. Yes. Thank you, Mr. Guarini. One obstacle, I think, historically speaking, for a common economic universe to be established in our countries has been probably the fact that we do tend to have very similar productive bases. Therefore, we are generating products that are not complementary, and therefore, it is difficult for us to buy and sell to each other in general, especially in agricultural goods.

However, I think your question is very well put and very intelligent. It would be to our benefit to go back to the original inspiration of the Central American Common Market, and the Caribbean countries also have their common market in the sense that we look to develop purposefully designed complementary industries among our countries; that is, that we make sure that we all plan on a regional basis not to have duplicated tire factories, for instance, but rather, to have industries that are complementary, either because they are each producing at a different point of the productive chain of a single product or because they simply can feed each other with products for production in each other's factories.

I think that is possible to do. The problem is that then we would need what you referred to several times before this morning. We do need then to look after two aspects which you are spending 936 money on. One of them is infrastructure and the other is training. Because we would need to upgrade our work force, and we would need to upgrade our business community and we would need to make some significant investments in creating, especially in I think some of the Caribbean countries, a richer and more diversified industrial base.

This exercise of CBI lobbying, I guess is what you would call it, that we are doing now, we were commenting on this this morning with Minister Gordon, is a very interesting experience in regional consciousness building among our countries. We have not had that in the past. Central America has had some and the Carribean counties have had some but we have not ever, I don't think, sat down to design a regional strategy, developmental strategy.

Mr. GUARINI. Maybe after we have peace in the area, with the leadership of your President Arias, once that is accomplished, then we can go on to the next step as to how to economically get the maximum benefit out of the resources of the area, its people and its national resources.

Mrs. FIGUERES DE JIMENEZ. Just to comment on that, probably one of the greatest advantages of CBI has been the psychological effect that it has had on us because we are now beginning to think of ourselves as a group of countries with a common interest.

Mr. GUARINI. Well, 45 percent of the benefit of CBI has been estimated have gone to the Dominican Republic and Costa Rica. I don't know if that is an accurate measurement but that is a statement that has been made.

What characteristics do your countries have that the other countries don't seem to be able to take advantage of the tax benefits and the trade benefits that CBI wants afforded? Is is your educational level? Are there areas that you feel that the Dominican Republic and Costa Rica were in a better position to benefit from the CBI and the others couldn't?

Mrs. FIGUERES DE JIMENEZ. Yes. Probably the fact that the CBI stimulus was received by these countries which had a slightly more developed human and material infrastructural grid made them more capable of responding in a shorter amount of time and with higher figures both for investment and exports than the other countries, but then now we get referred back to the problem of specificity, don't we, that CBI cannot be an overall blanket policy.

It has got to be adjusted to specific country needs.

Mr. GUARINI. As an aside, let me ask you one last question. Costa Rica and Cuba signed a sugar agreement yesterday, I noticed in the newspaper this morning. What impact does that have and what significance does that have; do you know?

Mrs. FIGUERES DE JIMENEZ. We signed a sugar agreement?

Mr. GUARINI. That was this morning's news. You perhaps didn't have an opportunity to read it in the newspaper. I just didn't know whether or not there was a significance. The first two nations to sign a bilateral sugar agreement were Cuba and Costa Rica. I thought there might have been a significance to it but I won't press the question. You probably have to find out more about it. I will show you the article.

Mrs. FIGUERES DE JIMENEZ. OK. That refers to a general policy of looking for new, obviously, outlets for sugar but we have not received information or confirmation of that.

Mr. GUARINI. I don't want to surprise the Trade Minister.

Mrs. FIGUERES DE JIMENEZ. I think someone is forging my signature.

Mr. GORDON. If I may, Congressman, just refer to one of the questions you asked earlier, the Minister pointed out that we have not traditionally had a relationship between the Spanish-speaking, English-speaking Carribean, and there are many reasons for this. What this has done is brought us together. An example occurred this morning where in just chatting with the Minister a clear opportunity was identified for trade between us.

This would never have happened if we hadn't come to this forum and begun to start dialogue. I think this is one of the intangibles that must come out, or that will come out, of the CBI, which is very difficult to quantify but one is now beginning to look at the region in an entirely different way, and I think that is an extremely positive benefit.

The other comment I would like to make relates to why other CBI countries have not taken as much benefit, have not benefited as much as Costa Rica perhaps and the Dominican Republic. In many of the cases of the eastern Carribean the infrastructure has just not been present for this and I think it is important that we appreciate it.

Jamaica, where they had separate problems, but they had moved to try to take advantage and they are doing so now. In the case of my own country, we were rather indifferent because we thought we had oil and, therefore, we didn't move as aggressively as we should have done, but that was a long time ago and there is an entirely different emphasis now. So, I think it must be understood that there are many countries that were simply not in an advantageous position to take advantage of the situation 3 years ago and which were in the process of change but are now prepared to do so.

That is why the CBI is so critical.

Mr. GUARINI. Minister, you mentioned Belize and, of course, they have a poorer standard of living, as the eastern Carribean group, does. You seem to indicate they should be given an extra consideration, if I understand your testimony right, that Belize should be included in that group. Now Haiti is probably the poorest country of the entire Carribean Basin area, having $150 per capita as their average standard of living. Should we deal on a geographic basis or should we really deal on economic levels if we are trying to help some of the countries that are to be differentiated from the better off Carribean Basin countries?

Mr. GORDON. I think that would be opening a can of worms that you couldn't possibly control if you attempted to do it on a graduated economic level. I think the geographic way, the way conceived by the CBI is the way it should be addressed. If I didn't mention Haiti it was only because I know there is already a predisposition to help Haiti.

Mr. GUARINI. Is that a special case?

Mr. GORDON. Most certainly.

Mr. GUARINI. Should it be treated as a special case? Could they ever take advantage of CBI II?

Mr. GORDON. The difficulty of establishing a special case is that there could be many special cases and I know that is the difficulty of managing any system. But having said that, If ever there was a special case, it would be Haiti, yes.

Mr. GUARINI. I guess lastly what my question is is how should, in your opinion, the CBI II bill treat a country that stands out so significantly and is on the verge of a dictatorship like Haiti?

Mr. GORDON. Well, I would think some things must first happen in Haiti before one can really realistically plan the direct——

Mr. GUARINI. Doesn't look too good right now.

Mr. GORDON. It would seem to me until certain definite paths are set, it is very difficult to anticipate what one can do for Haiti. So to some extent, I think timing is critical here.

Mr. GUARINI. Do you have any suggestion, Mr. Minister?

Mr. GORDON. I have many personal views but they are views I wouldn't like to express at this forum because I think the implications are very fundamental.

Mr. GUARINI. Thank you, very much. I thank the Chairman.

Chairman GIBBONS. Mr. Crane.

Mr. CRANE. Thank you, Mr. Chairman. I want to congratulate both of our witnesses for their outstanding testimony and congratulate Madame Minister for her outstanding presentation down in Miami when we were there.

I had a question come to my mind and I am trying to research and get the answer. It was in connection with the annex that is attached to your statement, Madame Minister, dealing with the denial of that tax exemption benefit for cruise ships which I though was counterproductive at the time. I still believe that and I would like to see that tax exemption restored. But a question in my mind that I do not have the answer to readily, if say a real estate convention were held in Costa Rica from the United States. Do the participants enjoin the same tax treatment that they would enjoin if the convention were held in Las Vegas?

Mrs. FIGUERES DE JIMENEZ. If you mean tax exemption?

Mr. CRANE. Yes.

Mrs. FIGUERES DE JIMENEZ. In order for us to become eligible for that in Costa Rica and in any of the CBI countries, we would have to sign or rather ratify, because we have already signed, a tax information exchange treaty with the United States. In the case of Costa Rica, we have signed it but we have not ratified it. It is in Congress and we are going through the tortures of trying to get it ratified. I believe that there are only two or three countries in the CBI region that have ratified it.

It presents certain problems with internal legislation and with fears on the part of the local private sectors as to access to information about their business activities. So it is a little bit hard to get through.

Mr. CRANE. Are those local businesses confined to like the hotels? Does it go beyond that as far as information? I am trying to figure out how big a harassment it is.

Mrs. FIGUERES DE JIMENEZ. In the case of Costa Rica, we adapted the terms of the regional treaty presented or submitted by the United States slightly so that it would be congruent with our laws with respect to access to this kind of information; however, that has not comforted the private sector enough in our country and I think the private sector in many of the CBI countries is equally nervous about this part. That is what is stopping them from signing and ratifying it.

Mr. CRANE. Do you encounter, Mr. Gordon, the same kind of problems?

Mr. GORDON. We have encountered some nervousness about it again for traditional reasons. The United States has asked for this information. What is it intended for? But, I think we have gotten over most of those problems and we are at the point as a government of approving it. But approving it in the sense that we would have to sit down and negotiate certain things that may have to be talked about.

It will require some consequential amendments, maybe even a new constitution. We are not sure. We are at the moment addressing it and we would hope in a matter of weeks as a government we will be able to take an affirmative decision on it.

Mr. CRANE. Well, I thank you for that input. I would hope, Madame Minister, that we might follow your very positive recommendation on the convention tax treatment on cruise ships at least for the Carribean. As I said, I dropping it was a big step backward. I still believe that and hope we will follow your good recommendation. I thank you both for your testimony.

Mrs. FIGUERES DE JIMENEZ. Thank you.

Chairman GIBBONS. Mr. Frenzel.

Mr. FRENZEL. Thank you very much, Mr. Chairman. I want to thank both ministers for their presentation and for their help and their counsel as our thinking on this matter has moved along.

Madame Minister, on page 4 of your testimony at the bottom, the sentence does not end nor does it begin on page 5. There was some sort of insert that must have been left out.

Mrs. FIGUERES DE JIMENEZ. It was left out and we are going to call it in. Where does it stop, Mr. Frenzel? After further "roads the"?

Mr. FRENZEL. I have the last three words are "CBI aggregate trade," and there is no period and obviously that is not the end of the sentence.

Mrs. Figueres de Jimenez. We don't have the original here but we will be phoning in the missing sentence.

Mr. Frenzel. I think it is pretty clear what you are talking about there but, if someone could finish the sentence for us, we would have a more complete record. I am not a proofreader by trade and I didn't mean it to confuse anybody. It would simply make our work more clear here.

Both of you have suggested that Belize get special treatment. Is that a uniform feeling within the Carribean group?

Mr. Gordon. Yes. I think I can speak for what is called the Carribean Group and certainly there is that feeling that Belize should be included.

Mrs. Figueres de Jimenez. Yes. We met in Miami with most of the Central American officials of the governments and that is a regional feeling.

Mr. Gordon. May I also say that we are also hopeful that it won't be long before Guayana might be included as well. You see I think, in addition to the economic benefits, there is a psychological pull which CBI has on the region, and while I know there are certain bilateral negotiations necessary—this has to be done between the U.S. Government and Guayana, I think I should also tell you that we are hopeful that that day will not be too long distant.

Mr. Frenzel. Thank you, very much.

I know we are under a time restriction, Mr. Chairman. Again, I want to thank both of the witnesses for their help, here formally, and in our informal discussions as well. We appreciate how willing you have been to come to see us and help us with this work. Both of your testimonies have given us some new ideas of things we can look at, some of which may be too sensitive for us. Some we probably haven't even thought about yet. So, thank both and I yield the balance of my time.

Chairman Gibbons. The Chair wishes to thank both of you. That little typographical error our proofreader discovered will be straightened out in the record. Your entire statements will appear in the record. I thank you for coming. I am going to ask the staff to schedule Ambassador Yeutter as quickly as we can this week.

Yes, Mrs. Jimenez?

Mrs. Figueres de Jimenez. If I could clear up partially the question Mr. Guarini made about the sugar agreement between Cuba and Costa Rica, the news is that they were the first two countries to sign the International Sugar Agreement, which is a multilateral agreement. It is not a bilateral.

Mr. Guarini. Thank you.

Mrs. Figueres de Jimenez. Thank you.

Chairman Gibbons. We are going to proceed on this as rapidly as possible and even if it requires a breakfast meeting or something of that sort. I will pick up the check, but we want to get Ambassador Yeutter's testimony on record. This concludes our hearing for this morning, but before we conclude, the Chair would like to ask unanimous consent that a letter that has been received by me from the Department of Agriculture and Consumer Services in Florida be made a part of the record, and I would ask the staff to review it and such parts of it as are already in our possession not be reprinted at any extra expense to the Government here.

It is a very comprehensive statement. It sets forth the views of Mr. Doyle Connor, who is the Commissioner of Agriculture, in great detail. So, without objection, we will ask that be done.

[The statement follows:]

STATE OF FLORIDA
DEPARTMENT OF AGRICULTURE
AND
CONSUMER SERVICES
THE CAPITOL
TALLAHASSEE 32301

DOYLE CONNER
COMMISSIONER

December 2, 1987

The Honorable Sam Gibbons
2204 RHOB
Washington, DC 20515-0907

Dear Sam:

Please find the attached position paper which delineates the specific objections Florida Agriculture has to extending the Caribbean Basin Initiative. You will find support for loans, technical assistance and education programs aimed at promoting economic and political stability through expanding private enterprise and creating new jobs for the citizens of designated CBI beneficiaries.

1. Florida Agriculture specifically objects to extending the Caribbean Basin Initiative for an additional twelve years. Evaluation data supporting the efficiency and effectiveness of CBI programs has not been thoroughly collected and analyzed to measure successful attainment of the goals of U.S. Caribbean Basin Initiative policy.

2. Florida Agriculture objects to increased imports of traditional Florida food and fiber crops from CBI countries which continue to threaten the preservation of this fundamental U.S. industry.

3. Florida Agriculture objects to restoring the sugar quota to levels enjoyed by Caribbean Basin Initiative countries in 1983 promising serious injury to the U.S. sugar industry.

Funding CBI projects continue despite the lack of additional funding since enactment. U.S. agriculture, the backbone of our country, is in trouble too, and needs to be taken into consideration when CBI policy is considered.

There is a growing feeling among this nation's agriculturalists that the United States Congress may be more concerned with the plight of farmers in other countries than with the plight of our own U.S. farmers upon whom this country depends.

Florida agriculture suggests that since there are seven years left on the original CBI Act, a thorough evaluation of CBI's impact on beneficiary countries and the United States is needed.

Thank you for your consideration of Florida Agriculture's concerns with HR 3101. I have also sent this report to Senator Bob Graham, the sponsor of the companion in the U.S. Senate. If I can be of further assistance, let me know.

With warm personal regards, I am

Sincerely,

Doyle

Doyle Conner
Commissioner

DC:wr

cc: Honorable Richard Lyng
    Florida Congressional Delegation
    State Commissioners of Agriculture
    Honorable Jamie L. Whitten
    Honorable David R. Obey
    Honorable Glenn English
    Honorable George E. Brown, Jr.

EXECUTIVE SUMMARY

The enactment of the Caribbean Basin Economic Recovery Act in August of 1983 authorized the President to proclaim duty-free treatment for eligible articles from beneficiary countries. This duty-free treatment was the centerpiece of the Caribbean Basin Initiative to promote economic and polictical stability by fostering foreign and domestic investment, diversifying economies and expanding exports of non-traditional products. United States agencies, such as the Department of Commerce and the Agency for International Development, fund various programs to facilitate business investments and export of CBI countries´ commodities. Projects provide development tools to CBI beneficiaries in the form of basic and vocational-technical education, scholarships and loans for study in the U.S., technology for developing industries providing labor intensive occupational demand, and technical assistance in producing and marketing duty-free Caribbean crops.

Florida and the Caribbean Basin have similar climates and growing seasons. Florida is highly vulnerable to imported pests and diseases of both animals and plants which could enter through Florida ports with Caribbean commodities. The U.S. agencies have invested millions of dollars in grants and loans to encourage CBI beneficiaries to produce crops for export to the U.S. under duty-free status.

Florida agriculture is in favor of supporting the CBI with loans for non-competitive projects, technical assistance, and education. It also favors encouragement of private enterprise to create new jobs at the levels of CBI worker´s capabilities. The primary concerns with the proposed twelve year expansion of the CBI follow.

1. Why give an additional life of twelve years to a program that has shown very little success? U.S. expenditure of hundreds of millions of dollars in the region from various inter-related programs has yet to produce any significant successes. Additionally, several agricultural consultants and growers residing in Florida have offered first hand knowledge of project shortcomings.

2. There has been an increase in imports of produce in competition with Florida production. The fear is that an increase in imports of those traditional Florida products not only leaves Florida vulnerable to a wide variety of foreign pests and diseases of animals and plants which are not now present in Florida, but directly places Florida agriculturalists at an economic disadvantage in the marketplace.

3. The proposed expansion bill raises grave concerns about the fate of the Florida sugar industry by restoration of the quota to the CBI; it is unlikely that the quotas can be restored without causing serious injury to the total U.S. industry.

Last year, Florida´s Commissioner of Agriculture, Doyle Conner, urged members of Congress to redirect foreign aid programs such as those under AID and CBI toward building infrastructure in CBI and improve educational programs, rather than spending taxpayer funds on programs to promote CBI production of non-traditional agricultural commodities that directly compete with Florida. This recommendation was backed by the National Commission on Agricultural Trade and Export Policy which issued a report in June, 1986, stating that Congress should deny funds to international programs "that result in an expansion of trade commodities and products that are directly competitive with U.S. commodity and product exports." Congress adopted Section 101(f) of the Continuing Resolution for fiscal year 1987 appropriations which contains language restricting AID funding of activities involving foreign agricultural exports which could compete with U.S. production.

While the plight of U.S. farmers remains ominous, CBI project funding continues, despite the lack of additional appropriations. U.S. dollars for research, development and marketing of traditional U.S. crops grown in the Caribbean Basin inadvertently push U.S. farmers deeper in debt. Commissioner Conner suggests the best thing for the CBI right now is to stop and take a hard look at what is working, what is not, and focus efforts on providing technical assistance to CBI countries for improving production and marketing of their traditional coffee, cocoa, banana and spice crops.

V

POSITION STATEMENT

In August of 1983 the Caribbean Basin Economic Recovery Act was enacted. It states "(t)he President may proclaim duty-free treatment for all eligible articles from any beneficiary country in accordance with the provisions of this title." This duty-free treatment was the centerpiece of the Caribbean Basin Initiative proposed by the Administration in 1982 to promote economic and political stability by attracting foreign and domestic investment in these countries, thereby diversifying the economies and expanding exports, particularly of non-traditional products, according to General Accounting Office Memorandum no. B-225332.

In addition to trade benefits, U.S. agencies, such as the Department of Commerce and the Agency for International Development, fund various programs to facilitate business investments in Caribbean Basin Initiative countries and assist the CBI countries to export their products. AID and Commerce officals emphasized that increased U.S. investment in Central America and the Caribbean, including increased U.S. purchases of products from the region, are essential to achieving CBI goals.

The concept and rationale giving impetus to the Caribbean Basin Initiative, Agency for International Development and all the various federal agencies involved are well founded and noble. Providing the tools for public and private sector economic prosperity to our friends and neighbors in the Caribbean Basin is certainly an effective approach to combating communism.These tools which the United States justifiably provides to the Caribbean Basin countries are basic and vocational-technical education, scholarships and loans for study in the U.S., technology for developing non-competitive crops, industries, serivces and technical assistance in health, education and economic development.

However, no U.S. governmental evaluations of CBI programs have provided irrefutable, empirical data proving successful attainment of the goals of assuring economic and political stability. Few evaluations of specific projects' efficiency and effectiveness have been performed. Therefore, any extension of CBI before these evaluations are completed would be premature.

U.S. exports of agricultural products from 1984 to 1986 to CBI countries have only remained stable or have decreased. This occurrence has remained despite the general, overall trend of a very slight increase in U.S. exports to CBI countries. The sketchy data obtained may seem to demonstrate some success until a closer look is given to CBI imports of traditional Florida agricultural products.

While the general trend in CBI imports to the United States since 1983 has been down, the value of imported agricultural products such as edible fruits, meat, leaf tobacco and vegetables is up significantly. Fresh vegetables are of particular concern. For example, CBI imports of tomatoes into the U.S. have risen nine-fold since 1984. Imports are highest during the periods of peak Florida production, February through May. The U.S. Department of Commerce figures show that CBI imports of tomatoes during this three month period in 1986 totalled one billion, six hundred ten million pounds of tomatoes from CBI countries. This volume is released into the market at the same time as Florida tomatoes are released. Comparing this data with the United Nation's Food and Agricultural Organization's figures for total exports of tomatoes shows that the CBI countries exported approximately 14 percent of their tomatoes to the U.S. prior to CBI aid and almost 100 percent exported in 1986.

During the same period U.S. imports of CBI traditional agricultural products such as coffee, cocoa, fruits and others have experienced increases while the retail price has remained stable without harming Florida agriculture. The demand for these Caribbean traditional crops remains unsatisfied. U.S. funds would be better spent on providing technical assistance to CBI countries for increasing the production and marketing of Caribbean traditional coffee, cocoa, banana and spice crops.

Congress in passing CBI, chose not to give duty-free status to certain petroleum products, leather goods and textiles. However, the importation of several textile products from CBI countries has not decreased. Equitable trade between certain U.S. and CBI textile industries continues to develop without duty-free status. It follows that equitable agricultural trade of traditional CBI crops would increase even without duty-free status, ending the damage to Florida agriculture.

U.S. agencies continue to invest millions of dollars in grants and loans for projects which encourage CBI nations to develop production of non-traditional crops, which in effect are traditional U.S. crops, for export to the U.S. under duty-free status. Florida farmers produce crops competitively and efficiently in a climate which is almost identical to that of most CBI countries. Since the climates are similar, the growing seasons are likewise similar. Consequently, when a crop would be harvested in a CBI country, it is the same time when Florida farmers would be harvesting their crop. The U.S. market already has surplus quantities of traditional U.S. agricultural products. Further encouragement of production of these products will only exacerbate the surpluses.

Florida leads the nation in the production of sugar cane. The current harvest of cane is expected to be the largest in history, at 14.2 million tons of cane to produce 1.5 million tons of raw sugar. The size of the crop may have an effect on the status of quotas which determine the amount of sugar that can be imported from small sugar producing nations, including those in the CBI area. The U.S. Department of Agriculture is bound by provisions of the current farm law to operate the sugar price support program at no cost to the U.S. Treasury. The Florida sugar industry has an estimated 1.5 billion dollars per year impact on the state's economy.

More than 10,000 foreign cane cutters harvest the Florida crop annually, sending most of their earnings home. Their earnings contribute an estimated $300,000,000 in foreign exchange in their native islands. The Florida sugar industry operates under the quota system, providing a dependable source of sugar for U.S. consumers at a price which is markedly stable. Preserving the present quota system is indispensable for maintaining the health of a large segment of south Florida's agricultural economy.

Florida agriculture is highly vulnerable to imported pests which could enter the U.S. through Florida ports from infested Caribbean-Central American countries. Numerous types of bacterial diseases, fungal diseases, viruses, insect pests and nematodes neither found in Florida nor the U.S. are found in the CBI farming areas. Transmission of pests and diseases to Florida on imported produce causes great economic harm and increases the cost to state and federal governmental agencies.

Florida is unique, not only in its climate but also in its agricultural production. For the most part, Florida is a "minor" crop producing state, although, to consumers in the northern United States fresh winter vegetables from Florida are not considered minor. Because of this uniqueness the issue of use of pesticides in the CBI area, of which application is not permitted in Florida, and residues of those pesticides on imported produce are of concern. The playing field is not level when CBI producers can use products banned in Florida with Florida growers using often higher-priced products to protect their crops and livestock.

The CBI policy is only in its fifth year of implementation. Empirical data has been presented delineating CBI detrimental impacts on Florida agriculture. Dr. Leo C. Polopolus, economist and former head of the Department of Food and Resource Economics at the University of Florida, summarizes one of the main concerns:

"The most serious indictment of the CBI is that it is difficult to find a scrap of evidence that the program has benefited the citizens of CBI countries in terms of higher standards of living, higher employment rates, and improved exchange earnings in the respective countries. Does the program really stand tall for protecting the U.S. and the hemisphere from communism? It is really a joke to most citizens in the CBI world. Why do we want to extend a program that has not achieved its objectives?"

Funding for CBI projects continue, even though additional appropriations have not been allocated since enactment. The plight of the U.S. farmer is well documented and repreive does not appear imminent. Research and its application is desparately needed to keep U.S. farmers in business. Any effort to subsidize foreign farmers in production and marketing of traditional U.S. crops over U.S. farmers will only aggravate the situation. U.S. agriculture is the backbone of our country. Activities which could potentially affect U.S. agriculture should be carefully scrutinized.

Economic Considerations

One of the factors limiting the success of the Caribbean Basin Economic Recovery Act (19 U.S.C. 2701) is the quota system which controls imports of sugar from other sugar-producing nations including several in the Caribbean Basin region. The Food Security Act of 1985, subsequent to passage of the CBI legislation in August, 1983, directed the U.S. Secretary of Agriculture to operate the sugar price support program for domestic producers at no cost to the U.S. Treasury by manipulating import quotas on foreign sugar.

The Secretary of Agriculture on December 15, 1986, reduced the sugar import quota by 41 percent, to about one million short tons compared with 1.85 million short tons in the previous year. At the same time, he transferred the South African quota to the Philippines.

U.S. quota imports of sugar have dropped from 2.83 million short tons in fiscal 1983 (the first full year after quotas were imposed in May 1982) to just over 1 million tons for 1987. Reasons for declining imports are a U.S. sugarbeet production increase, reduced sugar consumption because of the use of alternative sweeteners, imports of sugar-containing products, and the increased use of noncaloric sweeteners.

Current federal law extends the sugar price support program through the 1990 crop. The minimum price remains at 18 cents per pound, although some attempts may be made in 1988 to gradually reduce the support price over four years to 12 cents per pound. This would be less than production cost.

One of the major provisions of the proposed Caribbean Basin Economic Recovery Expansion Act would restore quota to those CBI beneficiary nations to the level assigned during the period of September 26, 1983, and September 30, 1984 (an effective quota increase from the current 350,690 short tons to 1,166,286 short tons in effect in FY 83), "notwithstanding any other provision of law."

As a result of the forfeiture of domestic sugar held as collateral by the Commodity Credit Corporation (CCC) in 1985, the government acquired 290,000 tons of cane sugar produced in Florida, for which it paid 18 cents per pound. CCC disposed of the sugar in sales to the People's Republic of China at 4 cents per pound and to an ethanol producer in Louisiana at 3 cents per pound, incurring a loss of $77 million, plus the cost of transporting and storing the sugar.

This section of the proposed expansion act is in direct conflict with the Food Security Act of 1985 and the U.S. position on international trade in agricultural products at the Uruguay Round of current General Agreement on Tariffs and Trade (GATT) conferences in Geneva, Switzerland, where we have urged that all agricultural supports, subsidies and preferential treatment of farm products in international trade be phased out over the next 10 years. The U.S. trade proposal in GATT talks have secured significant support from Australia, Argentina, Brazil, Canada, and several other important world producers and major participants in world trade in farm products. The U.S. position is actively opposed by the European Economic Community which heavily subsidizes both farmers and exports of surplus farm products.

Florida leads the nation in production of sugarcane. The 1986-87 crop of 13.7 million tons of cane was harvested from 405,000 acres, yielding 1,476,000 short tons of sugar and 93 million gallons of blackstrap molasses. Florida produced 22 percent of the sugar grown in the U.S., and 19 percent of the sugar consumed in 1986. The 1987-88 crop will be even larger than the previous year, grown on 420,000 acres.

The Florida sugar industry has a $1.5 billion estimated economic impact on the state's economy, especially in the four counties where cane growing is concentrated. It is operating on an economically sound basis under the present quotas at little or no cost to the U.S. Treasury as the quota insures a market for Florida sugar.

The Caribbean Basin Economic Recovery Expansion Act does not specify how sugar quotas to the CBI would be reinstated. Demand for sugar is relatively inflexible. To guarantee a large increase in the CBI quota by 815,596 tons would require: 1)a domestic supply control program to reduce domestic output; 2) a shift of quota from other non-CBI producers; or 3) significant government acquisitions of domestic sugar under the price-support program.

Threat of Imported Pests

The Caribbean Basin Initiative countries contain numerous fungi, bacteria, viruses, nematodes, parasites and insects that are neither currently present within the State of Florida nor the Continental United States. The potential for the importation of these plant and animal pests for both health and economic significance is great. The similarity of Florida's climate to that of the CBI countries makes our state particularly vulnerable to the introduction of plant and animal pests, especially those born on traditional U.S. crops.

Beyond plant and animal pests is the potential problem of continued use of pesticides within these countries that are not approved for application within the Continental United States. While the State of Florida continues to have one of the most active pesticide residue programs within the U.S., neither we nor FDA can adequately monitor the vast number of imports being received in this country.

The Caribbean Basin Initiative offers significant increased risks for the introduction of plant and animal pests into the United States. For the last fiscal year for which records are available, 1985, the U.S. Department of Agriculture/Animal and Plant Health Inspection Services (APHIS) statistics indicate that over 9,000 introductions of plant pests were intercepted from the Caribbean Basin Initiative countries. Within the statistics provided by APHIS, certain CBI countries are not included, so the numbers referred to are limited. The statistics reviewed indicated 8,054 interceptions of insect pests from CBI countries which represented 24 percent of the total interceptions into the U.S. from the entire world; 708 plant diseases or 11 percent of total interceptions as well as 310 weed interceptions representing 60 percent of worldwide detections into the U.S. were from CBI countries. Combining these three with interceptions of plant pests including mites, mollusks, and nematode categories, statistics showed that 9,096 interceptions or 22 percent of all intercepted plant pests were detected coming into the United States from CBI countries.

Florida and other states have committed millions of dollars to eradication efforts for plant pests such as Mediterranean Fruit Fly and other species within the last few years. Florida recently completed the second Mediterranean Fruit Fly eradication in less than two years and currently is involved in a survey control and eradication program for Black Parlatoria Scale, Honeybee Tracheal Mite, Varroa Mite, Caribbean Fruit Fly, Citrus Canker, and other diseases.

Attached are several tables that were published in a feasibility study entitled, Caribbean Area Food Irradiation, prepared for the United States Agency for International Development (AID) by the National Food Processors Association and the United States Department of Energy. The table from Appendix B, entitled, "Fruit Flies of Economic Importance in the Caribbean Basin and Their Major Hosts", indicates the numerous fruits and vegetables in the Caribbean Basin that are infested with Med Fly, Mex Fly, South American Fruit Fly, West Indian Fruit Fly, Sapodilla Fruit Fly, and Guava

Fruit Fly. None of these flies are currently within Florida nor the Continental United States with the exception of Med Fly which is currently in the State of California. This table illustrates the great susceptibility that our state does have from possible importation of these pests from the CBI countries.

Florida remains concerned with the presence of foot-and-mouth disease within this area of the world as well as potential importation of hog cholera. Currently, only the U.S. and Canada are free of these diseases in the western hemisphere. Recently, sterile screwworm flies were released in Florida in an eradication effort after an infested dog was transshipped through the state.

The question of transshipment from one country to another is of additional concern with the introduction of plant diseases. There is very little documentation or ability to trace shipments between countries. There is some concern that commodities have been transshipped from Cuba or from other South American/Central American and Caribbean Basin countries into one of the CBI countries and then imported into the United States with no indication of origin.

An additional quote from the CBI feasibility study by AID indicates, "(a)s passengers who travel continues to climb, new and innovative ways are being developed to speed movement through immigration, public health and customs clearances, and through agricultural quarantines." One such system, "red door - green door", initiated in Europe, is gaining acceptance in much of the world, to the chagrin of agricultural quarantine inspectors. Historically, a high percentage of new introductions of plant and animal pests have arrived concealed in passenger baggage. The red door - green door system eventually eliminates inspection, relying almost entirely on the integrity of the passenger to declare any animal and plant products. Experience indicates unreliability of the passenger to do so. The recent detection of the mango seed weevil, Sternochetus mangiferae, in St. Lucia and Martinique points to this danger.

Examination of the feasibilty study indicates that all commodities with potential import possibilities from most CBI countries are included within the U.S. funded feasibility report and most would be in direct competition with products already in large-scale production within the State of Florida. Florida, therefore, remains extremely vulnerable to the importation of plant and animal pests and diseases from precisely the same commodities that Florida growers are producing. The U.S. Department of Agriculture has been most cooperative in joint funding of eradication efforts for these pests introduced, but there still remains a large financial burden to state governments. The potential as well as documented introduction of plant and animal pests from CBI countries represents a threat to Florida agriculture.

[APPENDIXES ARE NOT BEING PRINTED]

Chairman **Gibbons**. We will continue these hearings soon and we will announce the hearing dates as far in advance as we can. The record will remain open to the conclusion of these hearings, if there is anyone in the audience who would rather submit their statement for the record, rather than appearing. I thank all of you for appearing today. We are off to a good start and we will continue it as rapidly as we can.

[Whereupon, at 12:50 p.m., the subcommittee was adjourned.]

CARIBBEAN BASIN ECONOMIC RECOVERY EXPANSION ACT OF 1987

MONDAY, MARCH 28, 1988

House of Representatives,
Committee on Ways and Means,
Subcommittee on Trade,
Washington, DC.

The subcommittee met, pursuant to call, at 1 p.m., in room 1100, Longworth House Office Building, Hon. Sam M. Gibbons (chairman of the subcommittee) presiding.

[The press release announcing the hearing follows:]

FOR IMMEDIATE RELEASE
WEDNESDAY, MARCH 16, 1988

SUBCOMMITTEE ON TRADE #18
COMMITTEE ON WAYS AND MEANS
U.S. HOUSE OF REPRESENTATIVES
1102 LONGWORTH HOUSE OFFICE BLDG.
WASHINGTON, D.C. 20515
TELEPHONE: (202) 225-1721

THE HONORABLE SAM M. GIBBONS (D., FLA.), CHAIRMAN, SUBCOMMITTEE ON TRADE, COMMITTEE ON WAYS AND MEANS, U.S. HOUSE OF REPRESENTATIVES, ANNOUNCES THE CONTINUATION OF PUBLIC HEARINGS ON H.R. 3101, THE CARIBBEAN BASIN ECONOMIC RECOVERY EXPANSION ACT OF 1987

The Honorable Sam M. Gibbons (D., Fla.), Chairman of the Subcommittee on Trade, Committee on Ways and Means, U.S. House of Representatives, today announced that the Subcommittee will continue its public hearings on H.R. 3101, the Caribbean Basin Economic Recovery Expansion Act of 1987, on Monday, March 28, 1988, in the main Committee hearing room, 1100 Longworth House Office Building, beginning at 1:00 p.m. These hearings were previously announced in Subcommittee press release #13. The time and location of additional hearing dates will be announced as they are scheduled.

DETAILS FOR SUBMISSION OF REQUESTS TO BE HEARD:

Parties who requested to appear as witnesses in response to Subcommittee press release #13 need not renew such request. If you have not already done so, requests to be heard must be made by telephone to Harriett Lawler [telephone (202) 225-1721] by close of business Tuesday, March 22, 1988. The telephone request should be followed by a formal written request to Robert J. Leonard, Chief Counsel, Committee on Ways and Means, U.S. House of Representatives, Room 1102 Longworth House Office Building, Washington, D.C. 20515. The Subcommittee staff will notify by telephone those scheduled to appear as soon as possible after the filing deadline. Any questions concerning a scheduled appearance should be directed to the Subcommittee office [(202) 225-3943].

In view of the limited time available to hear witnesses, the Subcommittee may not be able to accommodate all requests to be heard. Those persons and organizations not scheduled for an oral appearance are encouraged to submit written statements for the record of the hearings. All persons requesting to be heard, whether they are scheduled for oral testimony or not, will be notified as soon as possible after the filing deadlines.

Witnesses scheduled to present oral testimony are requested to briefly summarize their written statements. The full statement will be included in the printed record.

(MORE)

In order to assure the most productive use of the limited amount of time available to question hearing witnesses, witnesses scheduled to appear before the Subcommittee are required to submit 150 copies of their prepared statements to the Subcommittee on Trade office, room 1136 Longworth House Office Building, at least 24 hours, in advance of their scheduled appearance. Failure to do so may result in the witness being denied the opportunity to testify in person.

WRITTEN STATEMENTS IN LIEU OF PERSONAL APPEARANCE:

Persons submitting a written statement in lieu of a personal appearance should submit six (6) copies of their statement by the close of business Wednesday, April 20, 1988, to Robert J. Leonard, Chief Counsel, Committee on Ways and Means, room 1102 Longworth House Office Building, Washington, D.C. 20515. If those filing a written statement for the record of the printed hearings wish to have their statements distributed to the press and the interested public at the hearings, they may provide 75 additional copies for this purpose to the Subcommittee office, room 1136 Longworth House Office Building, prior to the start of the public hearings.

SEE FORMATTING REQUIREMENTS BELOW:

Each statement presented for printing to the Committee by a witness, any written statement or exhibit submitted for the printed record or any written comments in response to a request for written comments must conform to the guidelines listed below. Any statement or exhibit not in compliance with these guidelines will **not** be printed, but will be maintained in the Committee files for review and use by the Committee.

1. All statements and any accompanying exhibits for printing must be typed in single space on legal-size paper and may not exceed a total of 10 pages.
2. Copies of whole documents submitted as exhibit material will not be accepted for printing. Instead, exhibit material should be referenced and quoted or paraphrased. All exhibit material not meeting these specifications will be maintained in the Committee files for review and use by the Committee.
3. Statements must contain the name and capacity in which the witness will appear or, for written comments, the name and capacity of the person submitting the statement, as well as any clients or persons, or any organization for whom the witness appears or for whom the statement is submitted.
4. A supplemental sheet must accompany each statement listing the name, full address, a telephone number where the witness or the designated representative may be reached and a topical outline or summary of the comments and recommendations in the full statement. This supplemental sheet will not be included in the printed record.

The above restrictions and limitations apply only to material being submitted for printing. Statements and exhibits or supplementary material submitted solely for distribution to the Members, the press and public during the course of a public hearing, may be submitted in other forms.

* * * * * * * * * * *

Chairman **Gibbons**. Good afternoon, ladies and gentlemen.

Before we start with our first witness, I would like to make a couple of statements and perhaps Mr. Pickle and Mr. Guarini would also like to make some statements.

This is a very serious and important piece of legislation. To expand the economic opportunity of the people in the Caribbean so they would have better access into our market. Hopefully, through that, they can find ways of working their way out of poverty and economic distress that exists in the Caribbean.

There are no panaceas and we do not promise this is a panacea. This we hope will be an opportunity to work, work at good jobs for good wages for a good future.

Our present program has not been the success that we had hoped for. But when considering the exemptions in the legislation, the important exclusions in the legislation on its first adoption, I am not too terribly surprised that it did not work. I am surprised, though, at the impact that the U.S. farm legislation, particularly the sugar legislation, has had upon the Caribbean.

It appears to be that 82 percent, at least of their market in the United States, has been lost. The region's largest cash crop other than tourism has been severely damaged. We have learned many lessons from the past legislation.

Mr. Pickle, from the Subcommittee on Oversight, made a serious and comprehensive study of the operation of the existing law and it was that report that formed the basis for this proposed legislation.

Mr. Guarini with his "Friends of the Caribbean" group has done an outstanding job in providing a better understanding for people on both sides about what the problems are and has focused the Congress on what needs to be done.

The timetable—the first part of the timetable involves an omnibus trade bill. We hope—and I emphasis hope—that we will be through with that this week as far as the conference is concerned. That is a large hope. Maybe an unrealistic hope, but one that we are going to shoot for.

Immediately following that, there will be the United States-Canadian free trade arrangement. We hope that we will complete the work on that by the middle of June; and then the full committee, I hope the whole Congress, can take up Canada in the remainder of the time left in this year.

If we do, we move diligently, we can pass the CBI bill this year. I am working on the assumption that the administration approves all of this bill with the exception of the sugar program. They said that in the State of the Union. They said it in writing.

I have heard nothing to the contrary from them since then. I have asked them about it.

This bill is controversial. It may be modified considerably before it becomes law. Certainly a solution must be found to the sugar problem and the bill does not offer an answer in its present form.

Some accommodation may be necessary in other areas of this bill. But I think it would be a mistake to tell the people of the Caribbean we really want to improve their economic access to the United States unless we really mean it.

They don't need anymore disillusionment. They don't need any fair weather promises. What they need is some real access, some realistic access to this bargain and a lot of good help from the good Lord and from the other people around the world.

So this is very, very important legislation.

Mr. Pickle, do you have a comment to make?

Mr. PICKLE. No, Mr. Chairman. Other than to commend you for holding these hearings. I think it is in the national interest that we approve this legislation and that we approve it essentially as introduced.

We have a lot of witnesses today and I don't want to prolong my statement other than to say that my subcommittee found that this was important to our country and made certain recommendations to you. You improved upon our recommendations. We are proud and happy that you did. We support you, Mr. Chairman, in your efforts to pass this legislation as quickly as possible.

Chairman GIBBONS. Thank you.

Mr. Guarini?

Mr. GUARINI. Thank you, Mr. Chairman.

I want to thank you for holding these hearings, even though the time is very short in a Presidential election year to do all we intend to accomplish. Your leadership and also Mr. Pickle's leadership is very critical to making this successfully go forward.

I want to commend both of you gentlemen for the effort and time and insight that you have given to this particular subject matter which is very close—as Mr. Pickle just said—to our national security interests. We know that the survival of the fragile democracies and long-term efforts of peace in the Caribbean area is based upon a sound economic base, and now more than ever, we need broad support for this new CBI bill.

Certain special interests, perhaps, have to make sacrifices. We know it is very critical if we are going to sustain our own national security, we have to have a bill that will be able to uplift these 40 million people in 22 different sovereign countries to higher standards of living.

How close they are and how important they are to us. Our national concerns have always been viewed to be in another part of the Earth, while we have only right next door, our immediate neighbors with the lowest standard of living, perhaps, in the world.

So that what we are doing here is important not only to our sense of humanitarianism for these people, but by helping them, we help ourselves. I think all of Congress should realize how important it is that this is a two-way street and that it goes both ways in that what we give them is a basis of economic support.

We create better and bigger markets for ourselves in addition to protecting ourselves better from the threats in the world.

I want to thank you for your efforts, the efforts you and Mr. Pickle have put forth in bringing the CBI bill, the second CBI effort, before Congress and hopefully, we will be able to have it pass this year.

Nonetheless, the momentum has gathered and I think if we can keep that momentum up, we can bring the bill to fruition.

Thank you.

Chairman GIBBONS. Thank you, Mr. Guarini.

Our first witness is the Honorable David Rockefeller. He is most appropriate.

Mr. Rockefeller, come up and take the seat of honor.

He is most appropriate to be our first witness. Mr. Rockefeller and his family have long been associated with efforts to improve the living standards in the Caribbean; the long and distinguished record of help to the Caribbean area, a deep understanding and knowledge of the area.

Mr. Rockefeller, you may proceed as you wish.

STATEMENT OF DAVID ROCKEFELLER, CHAIRMAN, AMERICAS SOCIETY AND CARIBBEAN/CENTRAL AMERICAN ACTION, ACCOMPANIED BY PETER JOHNSON, EXECUTIVE DIRECTOR

Mr. ROCKEFELLER. Thank you, Mr. Chairman, distinguished members of the subcommittee. It is a pleasure to be with you this afternoon. I am David Rockefeller.

I am here as chairman of Caribbean/Central American Action, an organization dedicated to private enterprise and economic growth in the Caribbean Basin.

I have prepared and submitted a statement for the record, but in the interest of time, I would like to present to you a brief version of that statement. I have also asked——

Chairman GIBBONS. Mr. Rockefeller, without objection, your statement as submitted here will be inserted in the record immediately following your remarks.

Mr. ROCKEFELLER. Thank you, sir.

I have also asked Mr. Peter Johnson who is executive director of CCAA to sit here on my left. Mr. Johnson has devoted many years of his life to the problems of the Caribbean Basin and has been executive director of CCAA for many years. Therefore, if questions come up that are more detailed and technical than I am able to respond to, I would like to ask his assistance.

Mr. Chairman, all of us concerned with the future of the Caribbean Basin are grateful to you for your leadership in proceeding with these hearings without waiting for the resolution of the omnibus trade bill.

All of us are delighted that your colleagues in both Houses of the omnibus trade bill conference have gone on record to reaffirm the vital importance of the Caribbean Basin to the United States.

Particularly significant is their declaration of the intent of Congress that new trade legislation be used to strengthen the Caribbean Basin Initiative, not to weaken it.

Nonetheless, recent outbreaks of violence and disorder in the region signal a situation far too serious for routine remedies. Congress and the administration must recognize the need for renewed commitment and new departures.

It is heartening that this committee has recognized a historic opportunity to take the lead in launching a new era of Caribbean policy in trade, investment and in development aid.

In recent decades, a deadly hypocrisy has arisen at the heart of U.S. policy toward this vital region. On the one hand, we are supporting fragile democracies and troubled economies against the danger of their being undermined by those who would seek to destabilize the region.

On the other hand, we ourselves are steadily undercutting these Caribbean and Latin American countries with protectionist measures that disrupt and demoralize their economies. The U.S. protects precisely the products in which the region specializes. Sugar, apparel, textiles, footwear, and leather goods. We even exclude tourism from the coverage of the CBI.

After promises of commitment and consistency we are slowly—and even at times abruptly—choking off its economic livelihood in an ever shifting policy of rhetorical support and practical betrayal of Caribbean interests, we have cut back on foreign aid, drastically retrenched sugar quotas and entangled enterprise in webs of protectionism.

By tempting the region's producers with growing access to U.S. markets and then dashing their hopes, we leech away the confidence that is essential to the spirit of enterprise.

Shortening the horizons of opportunity, we balk investment, productivity and employment and foster capital flight and political demagoguery. We turn the region from an outlook of growth and hope for the future toward an outlook of envy and protest.

We isolate our friends and discourage government-backed, private sector strategies of development and then we threaten drastically to reduce the flow of development aid. Don't get me wrong. In itself, the CBI has been an impressive success, promoting nontraditional agricultural exports from Central America, fostering free-trade platforms for manufacturing, building new institutions to foster investment and trade, and helping all these embattled nations survive the more destructive facets of our policy.

But all these gains increasingly seem a cosmetic mask for a muddled and conflicted U.S. approach to the region. Behind the smiling face of our diplomacy are seen the teeth of quotas, exceptions, exclusions, and tariffs that bar many of the most promising products from entry into the U.S. markets.

The new bill is a welcome move toward a more sensible posture. We endorse with enthusiasm the proposed 12-year extension of the initiative. We applaud the tentative moves toward freer entry of now restricted products. We welcome especially the exemption of CBI countries from tests of injury to U.S. industries based on the cumulative effect of imports from other parts of the world.

The treatment of tourism, sugar, and ethanol, however, is still inadequate, despite good intentions. The provision increasing the duty free limit on items permitted into the United States only begins to address the potential for increased tourism for serving both United States and Caribbean interests.

The proposed rollback of sugar quotas—now only one-fourth the level at the launching of CBI—fails to respond to the enormous damage done to the region by this policy. The more favorable treatment of ethanol imports is critical to encouraging rather than discouraging the region's infant ethanol industry as a potential long-term solution to sugar dependency.

For all its virtues therefore, the new bill fails to measure up to the present crisis. Other congressional committees with other jurisdictions must accept the seriousness of what is happening in the Caribbean Basin and what they are not doing about it.

It is a time for understanding, commitment, and courage. Until the U.S. Government stops allowing a tiny minority in U.S. industry to dictate policy in this region, I fear for the future.

To say we are for democracy in the Caribbean while subverting growth is simply perverse. When growth stops, even the most prosperous nations risk unrest. In poor nations with soaring birthrates, slow growth risks revolution.

U.S. textile mills are now thriving. The sewing of U.S. fabric in the Caribbean Basin enables our mills to succeed in an increasingly competitive world market. Thwarting this natural combination hurts the mills and workers, the American consumer and undermines Caribbean Basin democracy.

As for the sugar industry, we must develop programs to aid a transition from unnecessary and uneconomic production in the United States. Sugar quotas which now penalize U.S. consumers by making them pay near double the world price and punish vital U.S. allies in the Caribbean must be changed. Incidentally, this same thing applies, I think, in the Philippines as well.

Finally, we must understand that protectionism damages the prospects of the U.S. economy. At a time of serious trade deficits, the Caribbean Basin provides the United States with a trade surplus. The region is already a significant market for our agricultural, industrial, and consumer goods, annually buying $6.67 billion worth of U.S. exports. Potentially the market is a great deal larger.

The collapse of exports to Latin America as a whole, however, was an important contributor to the U.S. trade gap. This region cannot increase its imports of our goods until it can export the goods in which it possesses a comparative advantage.

U.S. protectionism encourages protectionists everywhere in a spiral of shrinking markets and jeopardizes prosperity throughout the hemisphere.

Let us hope that the passage of a new and extended Caribbean Basin Initiative can create a positive spiral of economic growth and cooperation.

By expanding trade and investment on all sides, we can open up the horizons of political and economic freedom throughout the West.

In economics, good fences do not make good neighbors. Low fences or no fences are the secret of expanding commerce. By passing this bill and also enacting the United States-Canadian free trade zone, we can make a crucial start toward a true good neighbor policy.

We must stop regarding Third World exports to the United States as a threat to American business. Third World growth is indispensable to the future of American prosperity. The key issue is not whether trade balances with any particular region but whether trade volume grows in all regions.

The United States has long benefited from the world's largest free trade zone, from sea to shining sea. Let us extend this realm of open commerce to the sparkling waters of the Caribbean as well. Let us act now before the pressures of politics and schedules engulf our efforts.

Let us send a signal to all the peoples of the Caribbean that this initiative is a permanent commitment of the American people—

reaching out, not as one administration, or one Congress, but in a bipartisan pledge of good neighbors and friends.

Thank you, Mr. Chairman.

[The statement of Mr. Rockefeller follows:]

STATEMENT OF DAVID ROCKEFELLER, CHAIRMAN, AMERICAS SOCIETY
AND THE CARIBBEAN/CENTRAL AMERICAN ACTION

REAFFIRMING THE U.S. COMMITMENT TO THE CARIBBEAN BASIN

Mr. Chairman, Distinguished Members of the Subcommittee--

My name is David Rockefeller. I am here today in my capacity as Chairman of Caribbean/Central American Action, an organization dedicated to promoting private-sector-oriented economic development in the Caribbean Basin.

Mr. Chairman, all of us who have followed with concern the economic situation in the Caribbean Basin and its impact on U.S. economic and foreign policy objectives are aware of the outstanding leadership role this Subcommittee and you as its chairman have played in this area. Both the substance of the proposed legislation now before you, and your decision to proceed with these hearings without waiting for the resolution of the Omnibus Trade Bill, reflect the solid grasp that you and other members of this Subcommittee have of the issues involved, their importance to the United States, and the urgency of addressing them.

It is a source of great satisfaction to me--as I know it must be to you--to see that your colleagues from both the House and the Senate in the Omnibus Trade Bill conference committee have now put themselves on record reaffirming the importance of the Caribbean Basin to the United States, declaring the intent of Congress that new trade legislation not be allowed to result in a weakening of the CBI, and indeed that the trade provisions of the CBI should be strengthened.

That is what we are here to discuss today: how the trade provisions of the Caribbean Basin Initiative can best be strengthened, and how U.S. policy in other areas can best complement and reinforce what the CBI is trying to accomplish.

I think it is appropriate at this point, Mr. Chairman, to reiterate briefly for the record the basic premises underlying the Caribbean Basin Initiative and subsequent efforts to improve it. Unless we keep our eyes constantly focused on why all this is so important, it is easy to get sidetracked over technical arguments on seemingly minor issues.

WHY THE CBI

The fundamental premise underlying the CBI is that promoting prosperity in the friendly countries of the Caribbean Basin is vitally important to the economic and security interests of the United States. We tend to take these countries for granted until some political crisis--the recent turmoil in Haiti or Panama, for instance, or the military situation in Central America--reminds us how close they really are to our own borders.

In fact, we cannot afford economic collapse in the Caribbean either economically or militarily. Our ability to project U.S. military power effectively in distant parts of the world has been possible historically because we--unlike our adversaries--have never had on our doorstep hostile powers that pose a potential threat to our own borders. Individually, the countries of the Caribbean Basin can hardly be considered potential military threats to the United States. If, however, widespread upheavals in these small countries led to the destabilization and fall of Mexico, or resulted in even one of them becoming a Soviet nuclear base as Cuba attempted in 1962, the secure borders we have enjoyed throughout modern history would be a thing of the past.

We all recognize that instability in the region can be precipitated by a wide array of factors--ranging from individual ambition and local political traditions to Soviet adventurism or international drug trafficking. But many of us who have watched the region closely over the years have become convinced that the greatest danger to the long-term peace of the region,and the survival of the fragile democracies and would-be democracies there, is the danger posed by economic pressures.

Four years ago Congress took up the Administration's CBI challenge by passing the Caribbean Basin Economic Recovery Act, both in recognition of the region's importance to us and in recognition of the perilous condition of many of the region's economies at that time. A combination of high oil prices, underdeveloped local infrastructure and productive capacity, and the loss of markets or collapse of prices for traditional commodities had crippled their ability to earn foreign exchange. That, in turn, meant spiraling unemployment, an increasingly unbearable debt burden, inadequate resources to provide basic public services, and the inability to buy the spare parts and productive equipment to be able to produce and earn more in the future.

After decades of unsuccessful experimentation with various forms of socialism, most of the governments in the region--backed by their electorates at the polls--were ready to give a free enterprise approach to economic growth a serious try. We knew that if that also failed, those governments could not maintain themselves. The level of popular desperation would be worse than if that last best hope had never been tried.

Congress and the Reagan Administration believed--and I know this is a belief, Mr. Chairman, which you and I continue to share--that that hope was not misplaced. The hope that Caribbean and Central American countries, with the enouragement of the United States, placed in enterprise-oriented development as the CBI got underway was founded on a reality that is still valid today. It is a fact that encouragement of local enterprise, attraction of foreign investment, and expansion of non-traditional exports offer these countries their best possibility of achieving genuine economic growth and prosperity over the long term.

That brings me to the second premise upon which the CBI was based: The best way for the United States and other developed countries to help the Caribbean Basin achieve prosperity is by granting access to our markets. Development assistance is important. The country's own policies are important. But no matter how favorable a country's policies toward business may be, it cannot earn foreign exchange or increase its exports unless someone is prepared to buy them.

In the case of the Caribbean, and even Central America, the size of the countries and their economies makes it difficult for them to compete on the world market. Restrictive access through tariff and quota policies makes a difficult situation virtually impossible. Ironically, their small size also means that the amount of exports needed to turn around their economies will never be large enough to disrupt the domestic U.S. market. For both these reasons, the CBI adopted the position that preferential access to the U.S. market is our most effective tool to promote the Caribbean economic security that our own interests require.

It is worth mentioning also that the U.S. interest in the economic health of Caribbean Basin countries is not limited to avoiding the security concerns or the disruption to shipping and travel that political or economic upheavals in the region might bring about. Our own economy is deeply intertwined with that of the region. The Caribbean Basin is a major market for U.S. agricultural exports, as well as consumer and industrial goods. The U.S. Department of Commerce estimates that 162,500 jobs in the United States depend on the $6.67 billion worth of U.S. exports bought by our Caribbean and Central American trading partners. In a year in which the trade deficit problem has dominated the attention of this Committee and of Congress as a whole, it bears noting that the CBI countries, in fact, make up one of the few regions of the world with which the U.S. enjoys a trade surplus. Only an economically prosperous Caribbean Basin will be able to sustain and expand the markets on which so many of our own farmers, workers and businesses depend.

If, then, in the CBI we decided to grant preferential market access to our Caribbean neighbors in the hope of assisting them in their development goals and thereby safeguarding our own vital economic and security interests, the fair question to ask now is whether the policy is working. To the extent that it is working, how can we reinforce its strength? And to the extent that it is falling short of its intended effect, how can the defects be remedied?

My answer to the basic question, Mr. Chairman, is the same one the Subcommittee on Oversight under Chairman Pickle reached after an intensive study of this very point, and it is the same answer you and your colleagues have reached in translating the Pickle Report into this bill. The short answer is "Yes--the policy is working."

o We see the CBI working in the dramatic growth of non-traditional agricultural exports, especially from Central America.

o We see the CBI working in the attraction of investment in light industry to the region, with the booming free zones in the Dominican Republic a good example.

o We see the CBI working in the new attitude of partnership and cooperation the governments of the region have developed--with CBI encouragement--toward their private sectors, and in the new pride, vigor, entrepreneurial spirit, and social commitment of the region's business communities themselves.

o We see the CBI working in the new leadership role Puerto Rico has chosen to play in Caribbean development, and in the commitment of the "936 companies" to invest in CBI countries in addition to their operations in Puerto Rico.

o We see the CBI working in the fact that the countries of the Caribbean Basin have survived economically in the past four years--and this year even achieved a slight increase in their exports to the United States--despite devastating world market trends and policy impacts during that same period that would have left them far worse off if the CBI had not been in place. Despite the disastrous world prices of bauxite, coffee and sugar--traditional mainstays of many of these economies--and the virtual disappearance of the U.S. sugar market through quota cutbacks, they were able to offset the loss by non-traditional exports in such CBI categories as agricultural products, processed foods and medical supplies, as well as in the non-CBI apparel sector.

We would be foolish indeed to lose confidence in a 12-year program after the first four years, when it is already bearing fruit in such tangible benefits.

At the same time, the Oversight Committee documented what many of us working with the region's private sector already had discovered--that there are major impediments preventing the CBI from being nearly as effective as it could be. Some of these impediments are to be found in structural weaknesses, policy attitudes or bureaucratic procedures of the CBI governments and business communities--circumstances which in fact are changing for the better, but yield slowly to change. Some of them are limitations built into the original CBI legislation itself. Others are embodied in other U.S. laws and policies that could be modified to complement rather than undercut the CBI.

I would like at this time, Mr. Chairman, to itemize briefly each of the major ways in which we in Caribbean/Central American Action believe the CBI can be enhanced.

IMPROVING THE CBI

I.

First, we endorse with enthusiasm the CBI improvements already embodied in this legislation as written, and urge the members of this Committee to resist any suggestions that may be made during the course of these hearings to water them down.

In particular, I would like to underscore the importance of the following key elements of the proposed Caribbean Basin Economic Recovery Expansion Act (H.R. 3103), known as CBI-II:

o Extension of term. The CBI was established as a 12-year program in recognition of the need investors have to be able to project the return on their investment over a decade or more in order to weigh the decision to make the initial investment. Companies that have made CBI investments have told us that the 12-year span has in fact been an important factor in their being able to go into the region. But each year that we go forward into the program erodes that security for the new potential investor being approached in the latter years. The CBI was never intended to attract most of its investors during its first year.

Indeed, because of the 2-3 years typically required for any company to move from initial interest to operational status, and even more because it takes time for the business sectors and governments in the region to build up the needed human and physical infrastructure, one might expect that the longer the CBI remains in effect, the more investments would come to fruition each year.

But in order for that to work, the guarantee of 12 reliable years into the future would have to be in place for each of the 12 years the CBI is supposed to be in force--up to and including its final year. That, in effect, is what the extension provision of this bill accomplishes by adding another 12 years to the CBI. And it is clear why this objective would not have been accomplished by the extension language that the Senate had placed in its pre-conference version of the Omnibus Trade Bill. I salute you, Mr. Chairman, for the decision to go for the full extension. And we would hope that, at some point during these 12 years, Congress would see fit to adopt the roll-over provision contemplated in the Pickle Report, which would annually extend the CBI for an additional 12-year period as long as U.S. interests are well served thereby.

o Admission of Excluded Products. The potential of the CBI was stunted from its outset by the specific exclusion of whole categories of products. Most obvious is the apparel sector. Excluded from the CBI (even as originally proposed by the President), apparel is one sector--along with agriculture and tourism--that has unmistakable potential as a Caribbean Basin foreign exchange earner. However, even the growth rate in textiles--which has been significant--has begun to slow down, particularly in some of the leading countries, as the effect of the U.S. quota program begins to be felt. The barrier represented by the continuing dutiability of apparel products--as well as of other goods such as leather and footwear also specifically excluded from the CBI--remains a disincentive to investment in the region's otherwise most promising light industries.

We would like to see duty-free, quota-free treatment extended to all excluded products. However, we recognize that this might not be possible. The provisions of the CBI-II bill will improve the benefits to the CBI countries while meeting the earlier intent of Congress to safeguard U.S. producers. The three circumstances under which the Pickle Report recommended duty-free admission, and which are now reflected in this bill, are in the case of products not produced (or found in short supply) in the U.S., products made or assembled entirely from U.S. materials, and exports in quantities not exceeding a "tariff-rate quota" above which similar products from the same country would be dutiable.

We would, in fact, suggest several technical modifications to these criteria to give them the flexibility needed to make them effective. In the case of the 100% U.S. input criterion, we suggest that an allowance be made for non-U.S.-origin inputs of nominal value dictated by style considerations (as in the case of apparel decorations). We also echo the recommendation made last December by Minister Muni Figueres of Costa Rica and Minister Kenneth Gordon of Trinidad and Tobago that the same generous treatment be given to products of 100% CBI origin. Certain products with primarily ethnic markets presently under quota should also be granted more liberal treatment. Because of their limited resources, the CBI countries would never be able to produce large volumes of product under this provision, but the opportunity for vertical integration (as in the case of apparel from local yarn) could play an important role in economic development. Finally, in the case of the tariff-rate quota system, we feel it would be more effective if there were no country limits, such as the proposed incremental 3 percent annual limit on export growth, until such time as the overall ceiling--holding imports of the product from CBI countries to 5 percent of all such U.S. imports--had been reached. Country limits could then be considered to prevent unruly surges above the five percent.

Mr. Chairman, imports of apparel, leather goods, footwear or other products under these limited circumstances could not possibly cause serious injury to U.S. producers, and would in fact help many of them by encouraging the use of American-made fabric and other inputs. We strongly endorse these provisions of your bill.

o Separate injury test for CBI countries. Another section we consider to be critically important is the exemption of CBI countries from cumulation in the application of injury tests in countervailing duty and anti-dumping cases. This is an example of how specific legislation can implement the intent being expressed in the Omnibus Trade Bill that the CBI should not be weakened by subsequent generic trade legislation, as happened in the case of the Trade and Tariff Act of 1984.

When the original CBI was passed in 1983, it established the principle that CBI products were not to be excluded unless they by themselves caused injury, even if imports of the same product from other parts of the world had to be restricted for injury reasons. This policy was explicitly stated in the CBI legislation in regard to "escape clause" cases--the only type to which cumulation then applied--and intended to remain in force for 12 years. When, two years later, Congress saw fit to require cumulation in unfair trade cases as well (those involving findings of subsidies or dumping), the change was clearly targeted against countries other than those participating in the CBI. And yet no language was inserted to exempt the CBI beneficiaries from this new use of cumulation, and thus conform the new law to the separate but compatible national policy objectives expressed in the CBI.

The cumulation provision in your CBI-II bill would simply cure what was, in all probability, an unintentional oversight in the 1984 legislation. This certainly ought to be corrected.

Mr. Chairman, these three areas--the 12-year extension, the selective admissibility of textiles and other excluded products, and the exemption from cumulation--are components we regard as absolutely essential to retain as this bill moves through mark-up. In singling these out I am in no way intending to disparage the other provisions, such as the special Eastern Caribbean rule of origin and the higher duty-free allowance for U.S. citizens returning from the region, which we also support.

II.

Some of these provisions, Mr. Chairman, in fact point to areas where additional legislation is needed, either in the CBI-II bill itself or whatever vehicle you might find most appropriate.

o Tourism. The area of tourism, for instance, represents a glaring omission in the current CBI program which is only fleetingly addressed by the provision now in this bill raising the duty-free limit for U.S. tourists from $400 to $600. I mentioned earlier the triad of agriculture, textiles and tourism as being the highest-potential export industries for Caribbean Basin countries. The region's performance capability in the non-traditional agriculture sector has already been demonstrated under the existing CBI. The excluded products provisions of your CBI-II bill as written will allow the textile industry to start producing up to its potential. What the CBI will then still lack is an equally strong and effective tourism component.

To remedy this defect, the Caribbean tourism sector must be explicitly recognized as a priority target for CBI development. We urge you, Mr. Chairman, to set a positive policy tone throughout our Government by inserting into the CBI-II bill a statement of Congressional findings and intent such as the following:

> The Congress finds that....the tourism industry must be recognized as a central element in the economic development and political stability of the Caribbean Basin region, through its potential for increased employment, foreign exchange earnings, important linkages with other related sectors, and its positive complementary effect on trade with the United States; and
>
> It is the sense of the Congress that increased tourism and related activities should be developed in the Caribbean Basin region as a central part of the Caribbean Basin Initiative Legislation, and that a high priority should be assigned by the United States Government to projects and activities which develop and promote the tourism industry in the Caribbean Basin region.

This step will also remove a current U.S. policy impediment to CBI tourism development found in the language in the 1987 Continuing Resolution--still in effect--which effectively bars the Commerce Department's U.S. Travel and Tourism Administration from policy studies and technical assistance in the Caribbean Basin, and conveyed a negative congressional intent with regard to over-all U.S. Government cooperation with the Caribbean tourism industry.

Mr. Chairman, the hotel, airline and other tourism-related U.S. companies with which we at C/CAA have been working are convinced that efforts to boost the Caribbean tourism industry will have a beneficial rather than competitive impact on the U.S. tourism industry. U.S. airline and cruise passengers bound for Caribbean destinations typically include time in their departure city such as Miami as part of their vacation plans. By helping the Caribbean tourism industry market itself more effectively in other parts of the world, we will also be attracting many of these visitors to the United States as part of combined travel packages. We must also remember that half of every dollar, mark, pound or yen spent by tourists in the Caribbean islands, or invested in building and operating Caribbean tourist facilities, returns to the U.S. in purchases of equipment, supplies, food, and services. These spinoff benefits, combined with the overarching U.S. policy objective in helping CBI countries maximize their own foreign exchange earnings and development benefits, clearly point to the desirability and indeed the urgency of acting now to put tourism squarely in the CBI.

o Sugar. Another area touched upon in the current language of this bill, but one clearly requiring further legislative treatment whether in this bill or elsewhere, is the area of sugar policy. Mr. Chairman, I known you share my own deep concern about what U.S. sugar policy is doing to our friends in the Caribbean Basin. They need help now. They cannot wait until 1990 when the Farm Bill is up for review. For the 13 sugar-producing countries of the CBI, whose current quota adds up to only a fourth of what it was the year the CBI passed, lost sugar earnings have cost them half a billion dollars since 1983, and more than offset any CBI benefits. By calling for a roll-back of CBI-country sugar quotas to 1984 levels, your bill forcefully expresses the intent of this Committee to address this appalling effect of current U.S. policy on these countries we are supposed to be helping.

There are, however, steps this Committee, together with the Agriculture Committee, can and should take immediately to address the sugar issue in the CBI context without waiting for an over-all reform of the U.S. price-support and quota system. The steps I would urge you to consider are the following:

1. Press the Administration as vigorously as possible to faithfully execute the short-term remedy Congress has already put into law--the Sugar Re-Export program passed this December as part of the Continuing Resolution, which would enable CBI countries to effectively double their 1988 sugar exports to the U.S. by selling an extra 290,000 tons above quota to U.S. processors for re-export. Mr. Chairman, we all know this was purely a stop-gap measure. But Congress saw fit to enact it for overriding policy reasons which we continue to find persuasive. It is inexcusable that the Administration has refused to implement this program, which is the law of the land, on the basis of a legal technicality that Congress fails to find in its own reading of the law.

2. Meanwhile, rather than waiting for the Administration position to yield to protest and persuasion, I urge you to act promptly--whether using this bill or some other as the vehicle--to reinforce the existing law by new legislation remedying any possible defect, including specifically granting to USDA the authority to act which it claims it does not now have.

3. Finally, Mr. Chairman, in undertaking such corrective legislation on the Re-Export Program, I would urge you to use that opportunity to make the program applicable not only to 1988 but until the existing distortions of the sugar program are resolved. The reality is that much of 1988 is already gone, and the same problem will in any case return again with equal force next year. Since Congress is not considered likely to undertake a major reform of the sugar program during this election year--and perhaps not until the expiration of the program in 1991 forces the issue--it makes sense to leave this lifeline to the Caribbean in place. This will provide Congress with the opportunity to conduct its comprehensive review of U.S. sugar policy and to put in place a new program that takes into account both the interests of U.S. producers and consumers and the interests of Caribbean countries and of U.S. foreign policy expressed in the CBI.

o Ethanol. Another matter touched upon in the CBI-II bill is ethanol As you know, the bill provides temporary relief for two Caribbean producer/facilities from ethanol feedstock requirements enacted in the 1986 Tax Reform Act.

While we support this provision of the bill, the impact of the 1986 Act changes on the entire CBI ethanol industry necessitates additional action. The 1986 Act requirements for rapidly increasing percentages of CBI-origin feedstock have harmed the region's ethanol industry. Thus, we note, with satisfaction that the Conferees on the Omnibus Trade Bill have adopted a proposal granting a temporary exemption through 1989 for eligible ethanol facilities in the CBI countries. The proposal also calls for a International Trade Commission (ITC) and Government Accounting Office (GAO) study to provide data that can guide long-term U.S. policy in this area.

We support the decision of the conferees and urge its enactment. We believe it is time for the Committee working with the GAO, ITC and interested parties to reconsider the 1986 Act changes and to find a way to return to the original CBI intent to encourage rather than discourage the region's infant ethanol industry as a potential long-term alternative to sugar dependency.

III.

I have now discussed, Mr. Chairman, the key provisions of the CBI-II bill which we endorse, and other areas of the bill which touch on issues where we feel additional legislation is required, which might well be incorporated into this bill.

There is, however, a third category of CBI-related issues which are not addressed in this bill, and for which this bill may in fact not be an appropriate vehicle, but which nevertheless cannot be ignored in any consideration by this Committee of how to improve the effectiveness of the CBI. I would like to single out three such matters.

o First, the Omnibus Trade Bill. I have already mentioned the positive contribution of the Trade Bill (as we understand its current status) in making a strong pro-CBI intent-of-Congress statement, and in dealing with the immediate ethanol problem. But there are two provisions still in the bill which we believe would have a detrimental effect on the CBI, and are not countered by existing provisions in the CBI-II bill. Since, Mr. Chairman, your Committee has jurisdiction of both bills, and it may not be too late for new conclusions reached by this Subcommittee to be taken into account by the conferees, I feel it would not be inappropriate to bring these two matters to your attention.

One is the specifically CBI-related provision giving the President added discretion in retaliating against CBI countries that violate the commitments they made during the designation process--for instance in intellectual property rights matters. Current law requires the President to revoke their CBI status unless doing so would damage the U.S. economic interest. The new provision improves on this by making this a discretionary rather than mandatory decision for the President. The bill would also give the President the alternative of a softer remedy--denying CBI countries with such violations their CBI status for specific products rather than for all. While this also appears to be a provision favoring the CBI countries, and may in fact have been intended to do so, from a businessman's point of view it opens a Pandora's box that may be just alarming enough to tip the scale against a CBI investment. It replaces the remote threat of wholesale de-designation--unlikely ever to be considered except in the most egregious circumstances--with the much more real danger that some violation completely beyond the businessman's control could become the occasion for wiping out CBI benefits in the very product he happens to produce, or even that domestic interest groups wanting to remove competition in his sector could press for removing that product, using some violation as a pretext.

Mr. Chairman, the one thing CBI investors don't need is uncertainty about the future of their business under the program. Enough damage has already been done by the ex post facto restrictions added after the passage of the CBI in the case of ethanol. This new provision would exponentially increase the level of uncertainty. I do not believe that is a risk we as a nation, with a stake in the success of the CBI, can afford to take.

Our own view is that this Subcommittee would serve the CBI well by engaging the Administration in a creative exploration of a modified approach that would meet the most important needs of the Treasury without incorporating the features that make Tax Information Exchange Agreements unacceptable to most CBI countries. Ironically, for instance, a one-way requirement to provide information that would aid U.S. tax law enforcement might be more acceptable, despite its apparent one-sidedness, than the concept of mutual exchange. Especially for countries with a capital flight problem, disclosure of illegal business and banking activities of U.S. nationals in their countries might be a less sensitive issue than disclosure of legal business and banking transactions of their own nationals in the United States.

Another approach might be to focus on the overriding issue of controlling the illegal flow of drugs. This could be accomplished by means of a legal enforcement agreement such as the one in place with the Cayman Islands.

Clearly the concern of Congress and the Administration for tough law enforcement in the face of the drug epidemic is completely legitimate. So is the concern for tax enforcement at a time of budget cutting and belt tightening. But we do not need to choose between action, on the one hand, to address either or both of these urgent U.S. policy priorities and our equally important stake, on the other hand, in furthering CBI objectives. Right now we are linking them in a way that serves neither. It should be possible to come up with a policy that serves both.

o **Development Assistance**. Mr. Chairman, the third policy area where I believe a change is urgently needed to complement what we are trying to do in the CBI is the area of foreign aid. We are all accustomed to hearing about aid cutbacks around budget time each year, but what has happened this year in the case of the Agency for International Development's Latin American and Caribbean Bureau is truly alarming. For the 1988 budget year, the Administration's combined request for the categories of Development Assistance and Economic Support Funds was just over $5 billion worldwide--about the same amount actually spent for the same categories two years ago, but less than we spent last year, and over a billion less than last year's request. About one-fifth of the requested amount was intended for Latin America and the Caribbean. However, when Congress cut the combined DA and ESF budget by 6 percent--less, actually, than it often cuts, but enough to send the total below $5 billion for the first time in years--the cuts to Latin America and the Caribbean were out of all proportion to the rest.

In the case of the Development Assistance categories, Latin America and the Caribbean was cut 8 percent, while the amount for the rest of the world was actually increased by 7 percent. The disparity in the case of the Economic Support Fund category was even more stark--while the rest of the world was cut 5.6 percent, our region was cut 34 percent. Furthermore, no new ESF funds were approved for any of the Caribbean countries for 1988. The result is that in both categories we are talking not just about cutbacks from the request but cutbacks from last year's actual level of operations. In the case of ESF, last year's level is almost halved. What this means in practical terms is that many of the CBI countries--including most of the Caribbean mini-states--will have virtually no aid programs at all. This comes, Mr. Chairman, at a time when the Crockett Subcommittee has focused attention on the critical link between the development assistance these countries receive for infrastructure, training, transportation and other key support factors, and their ability to take advantage of the trade benefits of the CBI.

I realize, Mr. Chairman, that the aid budget is outside the purview of this Committee, but I strongly encourage you to weigh in at least with hortatory language behind the principle that an effective CBI must be complemented by an effective aid program; that CBI countries need more rather than less assistance than they received last year; and that neither the Congress nor the Administration can hide behind the vagaries of the earmarking system and claim a passive role in the wholesale diversion of resources needed in the Western Hemisphere to other parts of the world.

The abandonment of a meaningful U.S. assistance program in the CBI countries would be particularly tragic in view of the very substantial role some of the past and current AID programs in the region have played in the progress of the CBI to date. The AID missions in the various countries, and particularly the regional offices for the Eastern Caribbean in Barbados and for Central America in Guatemala, have played a key catalytic role in the revitalization of the private sectors in those regions. Thanks to encouragement and funding from AID, the private-sector organizations FEDEPRICAP in Central America and CAIC in the Caribbean are working alongside of--and sometimes ahead of--their governments

Other generic provisions of the Trade Bill could inadvertently have a negative effect on the CBI, and thus be incompatible with the Sense of Congress which expresses that CBI benefits not be weakened. An example of this is the section on perishable agricultural products. The existing CBI legislation already contains an adequate safeguard mechanism in regard to these goods, which allows for the elimination of their CBI preference. The new language in the Trade Bill could subject the same products not only to elimination of CBI status but to the imposition of actual quotas on short notice. This is exactly the type of change that could seriously retard investment in this promising sector.

o Section 936. Another major area of U.S. policy impinging on the effectiveness of the CBI is that of Section 936 of the Internal Revenue Code, which provides tax incentives to U.S. firms to invest and conduct operations in Puerto Rico. Two years ago when Congress extended the 936 program--overcoming strong misgivings from some quarters of the Congress as well as of the Administration--one of the key arguments in its favor was the Puerto Rican proposal to use the 936 program as an instrument to assist the countries of the Caribbean Basin and promote the objectives of the CBI.

The Governor of Puerto Rico had announced a program of encouraging so-called "936 companies" to locate complementary plants or to launch other cooperative business ventures in CBI countries. The encouragement took the form of advocacy and initiative, as when the Governor led 936-company investment missions to CBI countries such as Grenada, Jamaica, Dominica and the Dominican Republic. Congress endorsed Puerto Rico's CBI effort, not only by extending Section 936 but by modifying it to permit the investment of QPSII funds in qualified CBI countries that have signed Tax Information Exchange Agreements. QPSII funds are earnings of 936 companies on deposit in Puerto Rico banks, which previously were not permitted to be lent outside Puerto Rico.

There are two points I would like to make in respect to the future of the 936 program.

1. First, we need to evaluate the success and impact of this effort in terms of all investments made and jobs created in CBI countries by 936 companies in response to the Puerto Rican initiative, regardless of the method of financing used. By the end of February 1988, 936 companies had invested a total of $49.6 million in CBI-country investments that will create 7,181 jobs. The total includes investments in countries with as well as without TIEA's, and includes some investments that received loans from 936 funds, as envisioned under the program, and some that did not. The point to be made is that the availability of concessionary financing is only one means the Government of Puerto Rico sought to employ toward the end of making 936 companies partners in CBI development. If investments are made without recourse to this financing, it does not in any way diminish the impact of the program; it only stretches its resources further. This type of leveraging of private-sector capital is indeed to be welcomed and applauded. I urge you to avoid the pitfall of trying to assess the overall CBI results of the 936 program by the narrow measurement of the disbursement of 936 funds.

2. Second, in order to maximize the flow of 936-company investments to all CBI countries--not just those best able to attract commercial financing--we need to re-examine the use of TIEA's as a condition for access to the concessionary 936 financing. One of the recommendations produced by the House Foreign Affairs Committee as a result of its hearings last fall was the de-coupling of both the convention tax benefit and the 936 benefit from the issue of TIEA's. We at C/CAA recognize that the Treasury has strong policy reasons for holding out for TIEA's in both cases. But many of the countries have their own strong policy reasons for choosing not to sign them. The net result of incorporating the TIEA requirement in these CBI benefits has been that in the overwhelming majority of cases neither the intent behind the TIEA's nor the intent behind the CBI has been achieved.

to promote exports, attract foreign investment, address key development barriers such as transportation problems, train business managers, and help bring marginalized micro-entrepreneurs into the productive economy. The trade provisions in the CBI open the doors, but without this type of development on the ground, there will never be enough product to move through them.

WHY THE CBI CAN'T WAIT

Those, Mr. Chairman, reflect my thoughts and those of C/CAA on the range of issues that need to be addressed if the CBI is to be made effective. I leave to your wisdom the question of which of them belong in the CBI-II bill, which of them belong in the trade bill, and which of them belong somewhere else.

There is one point, however, about which, though views may differ, I believe there is only one responsible course. That is the urgency of enacting these CBI improvements, by whatever vehicles, during the 1988 session as opposed to putting them off until 1989. There are at least five good reasons why CBI cannot wait.

First, the CBI trade provisions are an integral part of over-all U.S. trade law. In a year in which Congress will have finalized the Omnibus Trade Bill as well as major trade agreements with Canada and Mexico, it would serve the interest of consistency and reliability if law set the CBI changes in place at the same time. For a CBI investor, needless confusion would be caused by the need to adjust to three different regimes in quick succession--the present CBI, the changes to be made in the Omnibus Trade Bill, and then further changes--including exceptions and corrections to the Trade Bill changes--to come in the CBI-II bill.

Second, the non-implementation of the Sugar Re-Export Program has created a need for emergency action, at least in respect to sugar. Devastating blows such as the tie-up of the Re-Export Program, the precipitous fall-off in regular sugar quotas for 1988, and now the equally precipitous aid cuts all point with greater urgency than ever to the need to help the CBI countries develop non-traditional products and get them into the U.S. market.

Third, for the past year public and private sector leaders in the Caribbean and Central America have expressed concern about wavering interest in the CBI on the part of the U.S. Government, as other priorities appeared to divert the attention of the Administration and Congress. The fragile trend toward democracy in Central America, and toward enterprise-oriented development solutions in the English-speaking Caribbean democracies--has been closely intertwined with the emphasis of those governments on the promise of the CBI, and on closer ties to the United States and the U.S. private sector. These leaders are not operating in isolation. They face impatient constituencies and active oppositions--often of the extreme left or right. Today is not a day too soon to send an unmistakable signal to the region that the Congress of the United States intends to do whatever it takes to make the CBI work.

Fourth, the importance of that signal is underscored by the dangerous military situation in Central America, and the hold it has had on the attention and resources of our Government. There is no conflict between responsible attention to security threats and an unwavering commitment to addressing economic challenges. Now is the time for Congress to lay the groundwork for the post-military phase in Central America. And it is also time--perhaps past time--to remove all doubt on both sides of the Basin that the U.S. remains firmly commited to economic development as the primary policy tool for advancing long-term U.S. political interests in the Caribbean Basin.

Finally, Mr. Chairman, and perhaps most important, the approaching change of Administration here in Washington makes it imperative that Congress should now take the lead in insuring that the momentum of the CBI continues up to and into the next Administration. We all know that scheduling pressures as well as political pressures complicate the process of finalizing legislation in an election year. But the cost of waiting is too great. It would be well into 1989 before a new Administration would be prepared to reassert Executive Branch leadership in Caribbean policy. Moreover, it would not be wise to wait passively until such a policy should emerge. Instead, Congress now has the opportunity--and, I would suggest, the responsibility--to assert its own leadership on behalf of the U.S. Government, setting the CBI on its strongest possible course and sending both the U.S. business community and the people of Central America and the Caribbean the message they most need to hear: namely, that the CBI is not a Reagan Administration policy that will be thrown out the window next January 20, but a United States policy that enjoys bipartisan Congressional support, and that is here to stay.

Thank you very much.

Chairman GIBBONS. Thank you, sir.

I noticed in your prepared statement you had a lot more to say about the sugar program and I want to talk with you a little bit about that because I think it is a key to unraveling this situation right now.

One of the problems that we have is that this particular committee has only limited jurisdiction over the sugar matters. Maybe we could take it and run with what little jurisdiction we have, but in drafting our legislation, we just essentially rollback the sugar quotas and let somebody else figure out what to do. We may have to end up with that as our only hope right now.

You mentioned in your prepared testimony that you think the administration was wrong in rejecting the Inouye—you didn't mention his name—but the sugar program in the omnibus budget reconciliation bill last year.

You also mentioned that it would be good to probably extend that through 1991 when the sugar program, the whole agriculture program comes up for renewal or change. Are there any other solutions to the sugar program other than that?

Have you exhausted the possibilities of what can be done in the sugar program other than getting the administration or some future administration to administer the law that was passed in the omnibus bill last year?

Mr. ROCKEFELLER. I don't know, Mr. Chairman. It just seems to me that for us to have cut the sugar quotas by one quarter from the time CBI was started was a most unfortunate thing to have done. Some 13 of the Caribbean nations depend very heavily on sugar exports for their well being and certainly for their economic growth.

Therefore, cutting the sugar quotas by one fourth has more than offset all of the other benefits which could come to them from other parts of the CBI; and, therefore, it is hard for me to see how without at least restoring the quotas to where they were at the beginning, how there could be any other very satisfactory solution.

I, myself, feel that we should take much more drastic steps than that, but at least that would be a beginning.

Chairman GIBBONS. One of the problems, the main problem outside of the European communities dumping of sugar is the U.S. farm program. As I analyze what has happened, the 80 percent of the sugar exports that the United States has canceled from the Caribbean has gone into corn, a highly subsidized product here in the United States .

So we are not just fighting the beetgrowers and the canegrowers. We are really fighting the corngrowers; and there are just a lot of them in the United States.

They have got a big lobby; but that is what has happened. The Caribbean's sugar has really been converted into corn sugar grown domestically here because of our high support price.

Do you have any suggestions as to what we can do about it.

Mr. ROCKEFELLER. Well, of course, one of the uses of the sugar is to produce ethanol and that too, we have cut off; so we have hit them a double blow. It seems to me that that is another subject that needs attention as well.

Chairman GIBBONS. Yes. It does. Yes, sir.

The Rockefeller family has long been associated with fuel. What about ethanol?

What should be our ethanol policy toward that area of the world?

Mr. ROCKEFELLER. Well, I am not an expert in this field by any manner or means, but it seems to me that over time it is very much in the interest of the United States to see other nations in a position to produce ethanol advantageously. It also seems shortsighted to cut off what is at the present time a relatively small amount of ethanol that can be produced and is being produced in the Caribbean just to protect the industry here in this country.

Chairman GIBBONS. Mr. Pickle, do you have questions?

Mr. PICKLE. Mr. Chairman, I want to thank Mr. Rockefeller for his statement, for his endorsement and for his very clear knowledge as to what this bill does.

I repeat the statement Mr. Rockefeller made with respect to American industry. You read the statement that American industries enjoy a surplus with Caribbean nations and that the added incentives we give in this bill would not hurt domestic industries, particularly with respect to those items or those industries which were excluded in the original bill.

Is your plan, then, that American industries, such as footware, for example, really are not hurt that much by this bill? Is that your position?

Mr. ROCKEFELLER. Particularly with respect to textiles and garment manufacturers, I think that the proposal that has been worked out between the United States and the Caribbean nations is a very good one for both areas because the American garment manufacturers are now producing clothing very efficiently and economically.

What has happened is that cloth is being sent to the Caribbean for manufacture into garments and then returned here with favorable frequency. That seems to me to be in the interest of both the United States and the Caribbean Basin.

What it does is to help our nearby friends and allies who are in dire need of employment and growth and who produce a relatively small percentage of garments relative to other parts of the world.

What it does, in effect, is give an advantage to our southern neighbors at the expense of the very efficient, large manufacturers in the eastern nations, and it seems to me that this is in our interest and the interest of the Caribbean nations.

Footware is a different question. We do not have a comparable arrangement in that area.

Mr. PICKLE. Either at this hearing or at another hearing, I imagine we will see representatives of some of the American industries protesting and objecting to some sections of the bill. I take it you are saying, in effect, that these industries are not being damaged, and that it is more important that we promote trade further in the Caribbean areas.

I want to ask another question. This pertains to section 936 funds.

I note that you applaud the use by section 936 companies taking some of their funds or profits now and investing it in CBI countries. You cite a number of jobs created as working for the benefit of the whole area. I am encouraged that this is going on.

Would you also note, to the extent that it is going on, that we have a little difficulty getting information about the section 936 funds? But you are making a reference to funds that are being diverted by American companies into these island nations.

My question is, are the section 936 funds now being used for this purpose and, if so, to what extent? And if not, why not?

Mr. ROCKEFELLER. It is a very good and interesting question. I don't know that I have answers as to why they have not been used more.

I think it is a fact that the funds which have been made available by the Puerto Rican Government for this purpose have not been called upon to the extent that I would have expected.

On the other hand, it is a fact that the companies who are benefiting from section 936 and have plants in Puerto Rico as a group, individually have been the ones which have made the largest new investments in the Caribbean islands. My understanding is that the total of that investment since the CBI was started has been in the order of $50 million and has created some 7,000 new jobs.

I would like to think that with time that figure would grow and the funds that are held out by the Puerto Rican Government would also be used for this purpose.

I have to say I have not studied the question carefully enough to really understand why those Puerto Rican funds themselves have not been drawn upon more than they have.

Mr. PICKLE. Mr. Rockefeller, we are hoping that in the immediate weeks and months ahead we can look into that question further, because I think it would be both to the Puerto Ricans' best interest and the whole Caribbean area, as well as the United States, if we add to our understanding of how best to proceed. At least we are making some advances through the section 936 companies, and that is encouraging.

I would hope to do more than that as we look down the road.

Thank you, Mr. Rockefeller.

Mr. GUARINI. I prefer to yield to my colleague, but nonetheless I will go ahead if he prefers it.

I want to thank you for your help and testimony, for the concern that you have shown in developing economically the Caribbean Basin area. We always think about it in terms of national security, but very few people point out that we have a trade surplus there of $1 billion, and that to generate support for this legislation we should show the economic importance of this to the United States. There are some special interest areas that should perhaps realize that they are not really being threatened if they negligibly give a little latitude toward developing more markets in that part of the world for some of the industries that are there.

We spend about $1.5 billion in foreign aid, I understand, and a great deal of it is military aid. We have very few incentives to economically developing these Third World countries that have a large debt. To get an overall program, of course, CBI is just one area where we are helping regarding trade. Hopefully we will be able to get equity investments there, help build up the infrastructure, help our companies and their companies in the Caribbean identify markets in the United States and the basin, so that we can develop a better two-way trade between our respective countries.

As Mr. Pickle said, the section 936 moneys and the twin plant concept could be more widely utilized to develop that whole area.

There are $14 billion in Puerto Rican financial assests. And certainly the TIEA requirement that we have negotiated a mutual treaty between our countries before they would get the benefit of section 936 loans seems to be very stringent.

I wonder whether or not you have any opinion on this, Mr. Rockefeller, because only three countries—Grenada, Barbados, and Jamaica in the last several years—of the 22 countries have gone along with the United States, and 2 of those countries have gone along before CBI, that is, Jamaica and Barbados. So we don't have a very good record by conditioning the section 936 moneys on the tax information exchange agreements.

I have some personal opinions on this because I feel that if we want to help these countries, we don't have to be giving conditions all the time.

Do you feel, with your background and experience in the business world, that it is critical, that we use the TIEA as a conditionality of their receiving the benefits of section 936 moneys through twin plants?

Mr. ROCKEFELLER. Again, this is a subject I really have not studied in detail, and I might want to call on Peter Johnson to say a word about it.

My overall impression is that its probably not necessary. I wonder whether the benefits we gain from those treaties are sufficient to justify our holding back on some investments that might have come had the requirements not been there.

But I really don't feel I am an expert, so with your permission I would like to ask Mr. Johnson to answer.

Mr. GUARINI. Peter, it certainly slowed up our progress.

Mr. ROCKEFELLER. My instinctive reaction is yours.

Mr. JOHNSON. I disagree and note that the drug issue is a very, very important issue in this country. So, however, is the issue of the objective of CBI.

It seems to me that if these are two primary interests out there, that we can somehow, with good technical and legal help, devise instruments that would get us through this rather than find ourselves stalled.

Mr. GUARINI. Do you sense there is a stalling happening where Puerto Rico is more anxious to install twin plants and is more or less hamstrung because it has all these conditions that it must meet before it can expand to other countries?

Mr. JOHNSON. I think there is no question that the effort coming out of this administration in Puerto Rico is a dedicated one and trying its best to move some of these finances out, as I think you just noted, and I certainly agree. There is only so much that energy can accomplish when you bump up against a stone wall such as there are in some instances represented.

I think it is very wishful thinking to expect that in the short term in Central America, or frankly in the Dominican Republic, we are going to have in the near future these kinds of agreements. I think it is time to look at them more flexibly.

Mr. GUARINI. We do have a large fund that we can make better use of than we do in order to try to lift up, not just the bootstraps of Puerto Rico, but of the entire Caribbean Basin area.

Canada, through the Carib-Can, has a program. We have CBI. I see Japan has recently shown a great interest in the Caribbean area.

Do you think there should be a more concerted multilateral program for this area instead of each country doing their individual thing? Do you feel that we should work more in concert with our trading partners and allies to bring economic stability to this region?

Mr. ROCKEFELLER. I am all in favor of multilateral cooperation, and it seems to me that, given the huge trade deficit that the United States has with the world at large, that we have a favorable balance of trade with the Caribbean, and that we are probably less flexible to do things today than some of the other nations are.

To the extent that we can work effectively with Japan or other nations in giving a lift to this area, I would be in favor of it. But I don't think that would in any way deter me from passing CBI and from pursuing it as aggressively as possible.

I think what we have learned from the CBI is that, in the areas where given a chance, it has been quite effective. In fact, for the commodities and products that are not restricted, there has been a growth of some 10 percent per year since CBI started. I think that is great.

Unfortunately, that fact has been camouflaged by the overall trade figures which were affected primarily, of course, by petroleum, and there it really affects only——

Mr. PICKLE. Thank you for yielding, Mr. Guarini.

I wanted to ask Mr. Johnson, in light of your statement, in which you said it is too short a time to expect all the nations to have passed some kind of tax exchange treaty and to have put into effect the exchange of the section 936 funds, perhaps it has been too short a time.

But we have a situation there where we do have a tax treaty with nations like Jamaica, and I don't think any of the funds have been put into effect, so even where you have a tax exchange agreement or treaty, it has not been put into effect.

How do you explain that?

Mr. GUARINI. I think there is just one? Jamaica is the only twin plant?

Mr. JOHNSON. I think there is just one, perhaps two.

Mr. Pickle, you are absolutely correct, there have been more plants established in the other Caribbean Basin countries than in Jamaica funded by the section 936 moneys. My understanding is the same as yours. I don't know the answers either.

I don't understand why it is not moving when there is so much money available. But this TIEA issue does seem to be one of the obstacles. Maybe there is a problem with respect to the mechanisms in San Juan, but my sense is that there is a lot of energy and a lot of dedication in San Juan to this problem.

Of course, we have to recognize that for some of these larger companies, such as Johnson & Johnson which are operating in Puerto Rico, setting up in any one of the Caribbean Basin countries section 936 moneys aren't that important to them because the kind of operations they would install would be relatively small and they could do it with their own money.

Mr. GUARINI. Am I right, Peter, when I say that Puerto Rico has been moving forward on twin plants with conventional moneys outside of TIEA countries because, with the restrictions of TIEAs, they have not been able to have the latitude or the flexibility of movement because of the conditions that are imposed?

They have been making some ground in building twin plants in other countries, but not using section 936 moneys?

Mr. JOHNSON. That is right. Mr. Rockefeller noted some $50 million worth of investment and 7,000 jobs which have gone in the past 2 years from companies operating from a section 936 base in Puerto Rico.

It is clear that those companies would not be there were it not for section 936. That is a different question, but nonetheless a positive answer.

Mr. GUARINI. Maybe it indicates there is something wrong with TIEA or the mechanism we have within section 936 that it is not more widely, universally used.

Lastly, let me ask Mr. Rockefeller, if I may, we are talking about a product—the industries of these islands are very basically farm-oriented.

What is your view as to the future of these countries? We may solve the sugar problem, but if we do that is a short run. Maybe half of the jobs in some countries are based on sugar.

In order to develop a long-range plan and to look forward to a broader manufacturing base than we have, what do you think has to be done in addition to just resolving the sugar or the textile or the ethanol problem, which is what they are immediately drawing their attention to right now in the CBI bill?

Mr. ROCKEFELLER. I would suppose this is, in considerable part, a question of training and infrastructure. This, of course, was one of the basic original tenets of CBI, that there would be an increased foreign assistance program from the United States to these countries.

Unfortunately, at the very time when we have cut back on our quotas for sugar, we have also cut back on our foreign assistance for different reasons.

But nevertheless the fact remains, therefore, that we have hit them twice. I think that we cannot expect on the one hand not to buy their sugar and on the other hand not help them diversify, and expect them to grow. So I think we need to act on both fronts.

Mr. GUARINI. So we have a short-range program and a long-range program to back it up, which is critical?

Mr. ROCKEFELLER. Right.

Mr. GUARINI. Thank you, Mr. Chairman.

Mr. FRENZEL. Mr. Chairman, I am sorry I was not here when the witness made his statement. I did, however, get a chance to read it.

I would like to say all of the members here present have been very interested in the CBI and the basin problems, and we are all grateful to you for your leadership in CCAA. That has been very important to us. And Peter has been a great base of support for us as well.

Our problem, of course, was that we passed CBI in the first instance after taking out the tax incentives, after blocking off those areas of endeavor that we thought would be sensitive in the United States, and we wound up with a document that was a nice, emotional statement about our affection and need for a strong Caribbean area, but with very little that would help.

The bill that is before us now is back at those sensitive areas. Chairman Gibbons suggested how difficult the sugar problem was. Of course, we have difficulty using 936 funds. And in your statement you indicated the need to provide a continuing market for Caribbean ethanol.

It is a difficult thing for this committee to move against a resistance that is normal and natural from industries that have had special protection in the United States. We are going to try it, I think, and I hope that with your help we are going to be more successful than we have been in the past.

But, again, may I restate my thanks for your interest and your willingness to put your precious time into this important work. If you have any concluding statement, we would be glad to hear it.

Mr. ROCKEFELLER. Well, thank you, Mr. Frenzel, for those kind comments.

I would just like to say that I think the hope for the future is better understanding on the part of both the Congress and the people of the United States of the relevance of this area to us in a very positive sense, that they can contribute importantly to us if we increase our trade with them, that we depend on them in a very important sense for reasons of security.

This is something we have not touched on too much so far, but I think it is also something we need very much to have in mind.

I do think that the leadership which you, Mr. Frenzel and Mr. Guarini have taken in organizing the Congressional Friends of the Caribbean has been a very positive and good step. I think that by your efforts and through various meetings and trips that have been taken, there is today, as I understand it, a far better understanding of the needs and issues than there was a few years ago.

The very fact that Chairman Gibbons has called this meeting ahead of many others and has given it the importance that he has is once again a sign to me of encouragement and gratification.

So I would just like to say in conclusion that I am grateful to have been given this opportunity to speak here today, that I and Caribbean/Central American Action will be glad to support your efforts in any way we can, and we hope they are successful.

Thank you very much.

Chairman GIBBONS. Thank you, Mr. Rockefeller.

Before we go to the next witness, let me explain that I am not dying; I just sound that way. I tend to bloom along with the cherry blossoms. I understand they are about to burst forth. My allergies are up.

Mr. GUARINI. I hope you don't wither as quickly, Mr. Chairman.

Chairman GIBBONS. No. I am not a cherry blossom. I am just allergic to them.

Now we have a panel composed of the Association of American Chambers of Commerce in Latin America: Samuel Giberga, board member, José Antonio Muñoz, the director, and Andrew Postal, the president.

Come right up, gentlemen.

Mr. Giberga, I will let you go first.

STATEMENT OF SAMUEL GIBERGA, PAST PRESIDENT AND BOARD MEMBER, COSTA RICAN-AMERICAN CHAMBER OF COMMERCE, ON BEHALF OF THE ASSOCIATION OF AMERICAN CHAMBERS OF COMMERCE IN LATIN AMERICA

Mr. **Giberga**. Mr. Chairman and all members of the subcommittee, my name is Samuel Giberga and I would like to thank you for this opportunity to address the subcommittee on H.R. 3101.

I appear here today representing the Association of American Chambers of Commerce in Latin America (AACCLA). AACCLA is a business organization affiliated with the U.S. Chamber of Commerce and is comprised of 22 American Chambers of Commerce in Latin America and the Caribbean which represent over 14,000 U.S. and host country companies and individual businessmen. Of these, eight American chambers are based in Caribbean and Central American countries which are beneficiaries of CBI legislation. These countries are the Dominican Republic, Jamaica, Haiti, Guatemala, El Salvador, Honduras, Costa Rica, and Panama.

Mr. Chairman, I will briefly summarize a more complete statement, and I ask that the complete testimony also be included in the record.

Chairman **Gibbons**. It will be also included in the record.

Mr. **Giberga**. Thank you.

I am a member of the board of directors of AACCLA. Mr. Chairman, we have seen how the CBI worked in the past and how it works now. Above all, we have practical ideas of some of the things that need to be done in order to make it work more effectively.

We believe that the benefits of H.R. 3101 are not all one sided, as significant advantage will also accrue to the United States. As the economic wellbeing of the beneficiary countries improves, the following effects are, in turn, anticipated for the U.S. economy: first, a decreased need over the long term for direct economic assistance to the region by U.S. Government institutions; second, U.S. exports to the region will increase directly with the purchasing power of the population; third, there will be an increased ability to repay the vast foreign debt of these countries which is held primarily by U.S. financial institutions.

AACCLA recently surveyed our Caribbean and Central American chambers, both on their experience to date with the CBI and with their specific provisions of the proposed bill. We feel this survey, while not scientific in the strictest sense of the term, represents a careful and diligent attempt to provide the subcommittee with feedback you might not otherwise get, that is, from the grassroots up.

Essentially there are three points I wish to pass along to you on the basis of our analysis of these returns.

First, the CBI has made real progress in moving toward its goal of promoting new exports from, and investments in, the region.

My second point is that the CBI, while producing some significant successes, is falling short of its full and originally intended potential. The AmCham member survey indicates that, among others, lack of policy consistency in maintaining the benefits of the CBI and product exclusions were the main impediments to obtaining further benefits from the CBI legislation in its presently enacted form.

The third and last point is that the proposals in H.R. 3101 and the companion bill in the Senate, S. 1594, go a long way toward resolving those impediments. Respondents to the survey were emphatic in their support of the 12-year extension, liberalization of duty-free admission of excluded products and special rules for cumulation in injury test determination. The restoration of 1983 sugar quota levels and the ethanol grandfathering provisions also received wide support.

From all this feedback, as well as from statements and day-to-day comments of our members and other businessmen in the region, it is accurate to say that this legislation enjoys strong support among the American business communities in Central America and the Caribbean.

We anticipate there will be objections to the enhanced benefits proposed in H.R. 3101 from organized labor and other sectoral interests and we would like to make some comments in this respect.

To our friends in the U.S. labor movement, we want to point out that enhancing the economic wellbeing of the beneficiary countries also holds advantages for the U.S. worker. First, an anticipated increase in exports to the region will mean more jobs in the United States. The U.S. Labor Department study of September 1986, "Trade and Employment Effects of the Caribbean Basin Economic Recovery Act," confirms this claim, nothing that "as the region develops, it is anticipated that it will attract increasing levels of U.S. exports and will generate additional job opportunities in the United States." Second, pressure on U.S. workers will diminish from decreased legal and illegal immigration to the United States as local labor is able to find adequate jobs in the region. Third, we know of the well-meaning interest shown by the AFL-CIO and its sister organization, AIFLD, the American Institute for Free Labor Development, in developing the democratic labor movement in the region. We believe their objectives will be well served by the increase of gainfully employed workers in the region instead of peasants on a subsistence economy. I also believe that our friends in AIFLD would have a difficult time explaining to their affiliated unions in the region the reasons why the AFL-CIO opposed legislation that would benefit job security in these struggling countries.

We respectfully urge the U.S. Congress to avoid the temptation of providing sector-specific protection since, more often that not, industries that receive such protection fail to adjust to changing circumstances.

I would like now to focus on the proposals in H.R. 3101 which would liberalize the duty treatment for items presently exempt from CBI benefits.

Our analysis of sections 4 and 7(a) of the proposed legislation indicates that they include self-regulating mechanisms which provide safety stops precluding damage to the U.S. economy as a whole or to any specific sector from the duty-free provisions.

For example, the bill proposed unlimited duty-free treatment on articles manufactured, assembled or processed from 100 percent U.S. materials, components and other products. We submit that if the U.S. textile industry is threatened by imports covered in this section, then self-control can be exercised by reducing or eliminating exports of the U.S. materials to the beneficiary countries.

Such a situation already arose with U.S.-sourced cut fabric for assembly of some apparel goods in Costa Rica where, under the Guaranteed Access Level of TSUS items 807A, this safety stop was used by U.S. firms who were unable or unwilling to provide sufficient cut fabric to satisfy approved quota levels. Section 4 restricts duty-free treatment under the very narrow basis of short supply or tariff-rate quota considerations which implicitly limit the volume of imports under CBI II.

From our viewpoint, Mr. Chairman and members of the committee, the CBI II provisions make us more competitive relative to other foreign nations exporting to the U.S. gains in trade which could be regarded as marginal in Pacific rim countries could completely rejuvenate CBI nations and instill confidence in the existing democratic regimes.

All of the U.S. Government reports of which I am aware support our belief that the CBI program does not remotely threaten the U.S. economy and is not likely to do so.

For all of these reasons, we ask that you act expeditiously in passing H.R. 3101.

Thank you.

Chairman GIBBONS. Thank you.

[The statement of Mr. Giberga follows:]

STATEMENT OF SAMUEL GIBERGA, BOARD MEMBER, ASSOCIATION OF AMERICAN CHAMBERS OF COMMERCE IN LATIN AMERICA (AACCLA)

Mr. Chairman and Members of the Subcommittee:

My name is Sam Giberga and I would like to thank you for this opportunity to address your Subcommittee on H.R. 3101, the Caribbean Basin Economic Recovery Act of 1987 -- also referred to as CBI II.

I appear here today representing the Association of American Chambers of Commerce in Latin America (AACCLA). AACCLA is a hemispheric business organization affiliated with the U.S. Chamber of Commerce and is comprised of 22 American Chambers of Commerce (AmChams) in Latin America and the Caribbean which represent over 14,000 U.S. and host country companies and individual businessmen. Of these, 8 American Chambers are based in Caribbean and Central American countries which are beneficiaries of the existing CBI legislation and represent 3,000 member companies and businessmen in the region. These countries are the Dominican Republic, Jamaica, Haiti, Guatemala, El Salvador, Honduras, Costa Rica and Panama.

Apart from my involvement with AACCLA, I am a member of the Board of Directors of the Costa Rican-American Chamber of Commerce (AmCham Costa Rica) and served as president of that AmCham in 1986 and 1987. I am also President and Chief Operating Officer of a U.S. owned textile manufacturing company in Costa Rica.

As you know from your trips to the region, and from several Washington appointments with some of you, our members have a strong stake in the success of the Caribbean Basin Initiative. Unlike many of those who may come before you with ideas on this legislation, we live and work with the impact of the CBI every day. We have seen how it has worked in the past and how it works now. Above all, we have practical ideas on some of the things that need to be done to make it work more effectively.

We are convinced that the CBI is a vital program which must be expanded and strengthened in order for beneficiary nations to improve their economic and political structures. We are also convinced that the increased prosperity resulting from implementing the proposals put forward in H.R. 3101 will help to ensure political stability for years to come in this region which is so vital to the interests of the U.S., and nowhere is stability more urgently needed than in Central America, now torn by military and political strife.

We also believe, however, that the benefits of H.R. 3101 are not all one-sided, as significant advantages will also accrue to the United States. As the economic well-being of the beneficiary countries improves, the following salutory effects are in turn anticipated for the U.S. economy. First, there will be decreased need for direct economic assistance to the region by U.S. government institutions which will have a favorable impact on the U.S. budget deficit. Secondly, U.S. exports to the region will increase directly with the purchasing power of the population, since it is a well known fact that the vast majority of imports in the region are sourced from the U.S. Third, there will be an increased ability to repay the vast foreign debt of these countries, held primarily by U.S. financial institutions.

Mr. Chairman, anticipating the opportunity to present testimony on this bill, AACCLA took the initiative at the end of last year to survey our Caribbean and Central American chambers, both on their experiences to date with the CBI and on specific provisions of the proposed bill. We feel this survey -- while not scientific in the strictest sense of the term -- represents a careful and diligent attempt to provide the Subcommittee with feedback you might not otherwise get, that is, from the grass roots up.

Essentially, there are three points I wish to pass along to you on the basis of our analysis of these returns.

First, the CBI has made real progress in moving toward its goal of promoting new exports from, and investments in, the region.

My second point is that the CBI, while producing some significant successes, is falling short of its full and originally intended potential. The AmCham member survey indicates that, among others, lack of policy consistency in maintaining the benefits of the CBI and product exclusions were the main impediments to obtaining further benefits from the CBI legislation in its presently enacted form.

The third and last point, is that the proposals in H.R. 3101 and the companion bill in the Senate, S. 1594, go a long way towards resolving those impediments. Respondents to the survey were emphatic in their support of the 12-year extension, liberalization of duty-free admission of excluded products and special rules for cumulation in injury test determinations. The restoration of 1983 sugar quota levels and the ethanol grandfathering provisions also received wide support.

From all this feedback, as well as from statements and day-to-day comments of our members and other businessmen in the region, it is accurate to say that this legislation enjoys strong support among the American business communities in Central America and the Caribbean.

We anticipate there will be objections to the enhanced benefits proposed in H.R. 3101 from organized labor and other sectoral interests and we would like to make some comments in this respect. To our friends in the U.S. labor movement we want to point out that enhancing the economic well being of the beneficiary countries also holds advantages for the U.S. worker. First, an anticipated increase in exports to the region will mean more jobs in the U.S. The U.S. Labor Department study of September 1986 "Trade and Employment Effects of the Caribbean Basin Economic Recovery Act" confirms this claim, noting that "as the region develops it is anticipated that it will attract increasing levels of U.S. exports and will generate additional job opportunities in the U.S." Second, pressure on U.S. workers will diminish from decreased legal and illegal immigration to the U.S. as local labor is able to find adequate jobs in the region. Third, we know of the well meaning interest shown by the AFL-CIO and its sister organization AIFLD (American Institute for Free Labor Development) in developing the democratic labor movement in the region. We believe their objectives will be well served by the increase of gainfully employed workers in the region instead of peasants on a subsistence economy. I also believe that our friends in AIFLD would have a difficult time explaining to their affiliated unions in the region the reasons why the AFL-CIO opposed legislation that would benefit job security in these struggling countries.

We respectfully urge the U.S. Congress to avoid the temptation of providing sector-specific protection since, more often than not, industries that receive such protection fail to adjust to changing circumstances. I would now like to focus on textiles as a case in point concerning the proposals in H.R. 3101 which would liberalize the duty treatment for items presently exempt from CBI benefits. Our analysis of Sections 4 and 7 (a) of the proposed legislation indicates that they include self-regulating mechanisms which provide safety stops precluding damage to the U.S. economy as a whole or to any specific sector from the duty free provisions. For example, the bill proposes unlimited duty-free treatment on articles manufactured, assembled or processed from 100 per cent U.S. materials, components and other products. We submit that if the U.S. textile industry is threatened by imports covered in this section, then self-control can be exercised by reducing or eliminating exports of the U.S. materials to the beneficiary countries. Such a situation already arose with U.S. sourced cut fabric for assembly of some apparel goods in Costa Rica where, under the Guaranteed Access Level of TSUS items 807 A, this safety stop was used by U.S. firms who were unable or unwilling to provide sufficient cut fabric to satisfy approved quota levels. Section 4 restricts duty free treatment under the very narrow basis of short supply or tariff-rate quota considerations which implicitly limit the volume of imports under CBI II.

From our viewpoint, Mr. Chairman and members of the Committee, the CBI II provisions make us more competitive relative to other foreign nations exporting to the U.S. Gains in trade which could be regarded as marginal in Pacific Rim countries could competely rejuvenate CBI nations, and instill confidence in the existing democratic regimes. All of the U.S. Government reports of which I am aware support our belief that the CBI program does not remotely threaten the U.S. economy and is not likely to do so. For all of these reasons, we ask that you act expeditiously in passing H.R. 3101.

Thank you.

Chairman GIBBONS. The next witness is Mr. Muñoz.
Mr. Munoz.

STATEMENT OF JOSÉ ANTONIO MUÑOZ, DIRECTOR, FUNDACIÓN DE DEFENSA DEL COMERCIO EXTERIOR, ACCOMPANIED BY FRANK SAMOLIS, COUNSEL

Mr. MUÑOZ. Mr. Chairman and members of the subcommittee, good afternoon. I am José Antonio Muñoz, and I appear here today representing Costa Rica's Fundación de Defensa del Comercio Exterior. I am accompanied here today by Frank Samolis of the Washington law firm of Patton, Boggs & Blow.

I must start by saying how much we appreciate this opportunity to express our support for H.R. 3101, a bill to improve and expand the Caribbean Basin Initiative.

I will summarize my testimony, which I ask to be incorporated in the record at this hearing.

Chairman GIBBONS. Yes, it will be.

Mr. MUNOZ. Thank you, sir.

Our foundation is a private, nonprofit organization, organized by leading private sector chambers and the individual companies. Its principal objective is to keep Costa Rica export interests aware of changes in U.S. trade law and to communicate their views in one voice to U.S. trade policy officials.

This entity was founded last year when Costa Rica's government and private sector began to understand the enormous importance of an active, nontraditional export sector to the country's social and economic wellbeing. Founding members of our group include the country's Chambers of Industry, Commerce and Agriculture, as well as its textile associations.

Some of the products exported by our members are plastic products, synthetic fibers, apparel, paper products, wooden doors and window frames, handcrafted tools, fish and fish products, and fresh winter vegetables and fruits.

In my testimony today I would like to start by endorsing Costa Rica's Foreign Trade Minister's testimony given at the December 14, 1987, hearing that you had. Additionally I would like to stress three major points: first, the importance of the Caribbean Basin Initiative to Costa Rica's growth and development; second, the need to view U.S. trade with CBI countries in its proper perspective; and, third, the new CBI II bill as viewed in Costa Rica.

For Costa Rica, increased exports represent the country's only way to preserve social and economic stability and the only viable means to meet its international economic obligations.

Historically Costa Rica was heavily reliant on international performance of basic agricultural commodities such as sugar, coffee and bananas. When the CBI program was implemented, Costa Rica began to increase its capacity to develop new products, and today it has a very successful program of non-traditional exports to the United States, the growth of which is crucial to the stability of the economy and to the civilization and social progress the country has achieved.

The U.S. investment in Costa Rica has more than doubled since implementation of the CBI. But the most important result of CBI in Costa Rica is the country's decision to participate in the international market.

At the same time that Costa Rica has been expanding its exports with the help of CBI I, it has also significantly advanced its commitment to become a full member of GATT and has entered into a structural program with the World Bank.

These two major undertakings reflect the country's conviction that only a vigorous economy and continued and better access to international markets can steer Costa Rica away from economic chaos and social unrest.

Our application to the GATT demonstrates our long-term commitment to participation in the world trading system. As important as the CBI is to Costa Rica and other Caribbean countries, the program costs the United States relatively little. As you consider the proposals to improve the CBI program, it is important that you view CBI trade in its proper perspective.

The total CBI exports to the United States in recent years has been less than 3 percent of the U.S. GNP, while U.S. imports from CBI countries are less than three percent share of the total U.S. imports, in many instances 50 to 60 percent of total export earnings in each of the CBI countries. In no other region of the world would the benefits of an improved trade arrangement do so much for the economies of the countries and the political interests of the United States at so little cost.

The simple fact is the CBI economies will never have the capacity to threaten U.S. industries. The aggregate gross domestic product of all CBI countries combined, based on 1985 figures, is equivalent to the GDP of countries such as Turkey or Yugoslavia.

Finally, we would like to discuss the CBI legislation itself. Both the bill, and the Pickle report which gave rise to it, are perceived in Costa Rica as serious efforts to strengthen the CBI while working within the framework of overall U.S. trade policy.

We therefore urge the U.S. Congress to consider the CBI II legislation favorably in its entirety. Our opinion is that the proposed legislation contains all the needed ingredients to improve the effectiveness of the current law without damaging the U.S. economy.

Comments and specific provisions are contained in my written testimony.

For all the reasons expressed in my written testimony, we urge the subcommittee to act favorably on H.R. 3101.

Thank you very much.

Chairman GIBBONS. Thank you.

[The statement of Mr. Muñoz follows:]

STATEMENT OF JOSÉ ANTONIO MUÑOZ, ESQ., DIRECTOR, FUNDACIÓN DE DEFENSA DEL COMERICO EXTERIOR

Mr. Chairman and Members of the Subcommittee, good afternoon. I am José Antonio Muñoz and I appear today representing Costa Rica's "Fundación de Defensa del Comercio Exterior". This entity was founded last year when Costa Rica's Government and private sector began to understand the enormous importance of an active non-traditional export sector to the country's social and economic well-being. I am accompanied today by Frank R. Samolis of the Washington law firm Patton, Boggs and Blow. We appreciate this opportunity to express our support for H.R. 3101, a bill to improve and expand the Caribbean Basin Initiative ("CBI").

Our foundation is a private non-profit corporation organized by leading private sector chambers and individual companies. Its principal objective is to keep Costa Rica's export interests aware of changes in U.S. trade law and to communicate their views in one voice to U.S. trade policy officials. Founding members of our group include the country's Chambers of Industry, Commerce, and Agriculture as well as its Textile Association. Some of the products exported by our members are plastic products, synthetic fibers, apparel, paper products, wooden doors and window frames, hand-crafted tools, fish, and fresh winter vegetables and fruits.

In my testimony today, I would like to stress three major points: first, the importance of the Caribbean Basin Initiative to Costa Rica's growth and development; second, the need to view U.S. trade with CBI countries in its proper perspective; and third, specific provisions of the new "CBI II" bill which are of particular importance to Costa Rica.

For Costa Rica, exports represent the country's only way to preserve social and economic stability and the only viable means to meet its international economic obligations. Historically, Costa Rica was heavily reliant on the international performance of basic agricultural commodities such as sugar, coffee, and bananas. When the CBI program was implemented, however, Costa Rica began to increase its capacity to develop new products, and today, Costa Rica has a very successful program of non-traditional exports to the U.S., growth of which is crucial to the stability of our economy. Significantly, this wider export base has diminished Costa Rica's vulnerability to international fluctuations in commodity prices. Some of the other benefits derived from this program are increased employment opportunities, wider participation of foreign investors in the economy, and increased market orientation of the economy, with decreased reliance on the government by the private sector.

U.S. investment in Costa Rica has more than doubled since implementation of the CBI, but the most important result of CBI is Costa Rica's decision to participate in the international market. At the same time that Costa Rica has been expanding its exports with the help of CBI I, it has also significantly advanced its commitment to become a full member of GATT and has entered into an important Structural Adjustment Program with the World Bank. These two major undertakings reflect Costa Rica's conviction that only a vigorous economy and continued and better access to international markets can steer Costa Rica away from economic chaos and social unrest. Our application to the GATT demonstrates our long-term committment to active and responsible participation in the world trading system.

Our belief in the benefits of changing our economic infrastructure and increasing participation in international markets is based solidly on our conviction that the government of the United States intends to preserve and improve the 1984 "Caribbean Basin Economic Recovery Act." I am confident in saying that the CBI is viewed almost unanimously in Costa Rica as the single most important component of United States policy towards the Caribbean region.

As important as the CBI is to Costa Rica and other Caribbean countries, the program costs the United States relatively little. As you consider proposals to improve the CBI program, it is extremely important that you view CBI trade in its proper perspective. Total CBI exports to the U.S. in recent years have been less than 0.3 percent of the U.S. G.N.P. While U.S. imports from CBI countries are a miniscule -- 2-3% -- share of total U.S. imports, they represent, in many cases, a major portion -- 50-60% -- of total export earnings by CBI countries. In no other region of the world would the benefits of an improved trade arrangement do so much for the economies of the countries and the political interests of the U.S., at so little cost.

The annual report on the CBI by the U.S. International Trade Commission is also of interest. In its September 1987 report, the ITC found that: the impact of CBI on U.S. industries and consumers has been minimal; the impact of CBI on the overall U.S. economy has been minimal, due to the low value of trade; and that future growth in CBI exports is likely to be slow due to the limited scope of products eligible for duty-free entry, constraints of high transportation costs, inadequate infrastructure, and lack of marketing channels in the U.S.

The simple fact is that the CBI economies will never have the capacity to threaten U.S. industries. The aggregate Gross Domestic Product (or "GDP") of all CBI countries combined (based on 1985 figures) is roughly equivalent to the individual GDPs of countries such as Turkey or Yugoslavia.

Finally, we would like to discuss the CBI II legislation itself. Both the bill and "the Pickle Report" which gave rise to it are perceived in Costa Rica as serious efforts to strengthen the CBI while working within the framework of U.S. trade policy. We therefore urge the U.S. Congress to consider the CBI II legislation favorably in its entirety. Our opinion is that the proposed legislation contains all the needed ingredients to improve the overall effectiveness of the current law without damaging the U.S. economy. In addition to supporting the extension of the 1984 Act to the year 2007, the Costa Rican private sector specifically endorses the following proposals in the bill:

- Removal of quota restrictions and duties on products manufactured from U.S. components;

- Implementation of a tariff rate/quota system for products currently excluded from the CBI when the same are manufactured from U.S. components. We agree, however, with the suggestion by our Foreign Trade Minister Muni Figueres that this particular provision could be improved by the establishment of a regional ceiling on imports in addition to country ceilings (country ceilings could then be waived if the regional ceilings so permit);

- A separate injury test for CBI exports to the United States, which under current law are cumulated with exports from other countries in countervailing duty and antidumping cases;

- Expansion of the U.S. sugar quota for Caribbean nations. The current state of disarray of international agricultural markets makes it imperative that the Caribbean region enjoy reasonable access to the U.S. market until such time when stability is achieved in the international markets. The Costa Rican private sector is keenly following the negotiations on agriculture in the GATT Uruguay Round of Multilateral Trade Negotiations; we hope the Round will bring order to international trade in agricultural commodities.

We also strongly suggest that the CBI II protect beneficiary countries' exports of perishable products in view of the provisions now being discussed in the omnibus trade bill, which should not be applied in a manner that violates the spirit and purpose of the CBI.

These provisions especially would help to ensure the increased trade and economic and social stability engendered by CBI I. For all these reasons, we urge the Subcommittee to act favorably on H.R. 3101. Thank you.

Chairman GIBBONS. Now Mr. Postal.

STATEMENT OF ANDREW POSTAL, PRESIDENT, JUDY BOND, INC.

Mr. POSTAL. Mr. Chairman and members of the subcommittee, I want to thank you for giving me this opportunity to testify today concerning CBI II.

Like the other members of the panel, I have prepared a written statement which I would ask to be incorporated into the record.

Chairman GIBBONS. Yes, it will be.

Mr. POSTAL. My name is Andrew Postal and I am president of Judy Bond, Inc., a company engaged in the manufacture and sale of women's blouses in the United States.

The Judy Bond Co. has facilities both in the United States as well as in Haiti and Costa Rica and, as a result, has a direct interest in the economic development of the Caribbean and Central American region.

It is my belief that the continued economic vitality of the region is not only vital to the economic and political interests of the United States, but also increasingly to U.S. apparel manufacturers in their attempts to successfully compete with Asian importers.

I come before you today to support congressional passage of H.R. 3101, a bill to improve the operation of the Caribbean Basin Economic Recovery Act. I particularly want to support those portions of the bill relating to the expansion of access in the U.S. market of apparel assembled or manufactured in CBI beneficiary countries.

It is my view that the provisions of the Caribbean Basin Recovery Act of 1987, which improved access for CBI suppliers of apparel and other manufactured products, will provide real benefit to CBI beneficiary countries and to the American apparel industry at no real cost to other elements of the U.S. domestic economy.

While the 1983 Caribbean Basin Economic Recovery Act has served as a stimulus to the economies of CBI countries, some sectors, such as apparel, did not receive the full benefits of that legislation and thus have received no real benefit from the original Caribbean Basin Economic Recovery Act.

It is true that the President's special access program for CBI beneficiary countries that export apparel assembled of fabrics formed and cut in the United States has provided a measure of additional market access to CBI countries. However, there are serious faults in the policy and the administration of that special access program, commonly known as 807A or super 807, apparel.

It is for this reason that legislation is required to provide greater access to the U.S. market for CBI assemblers and manufacturers of apparel under rules that are orderly and predictable.

Given the political and economic importance of the Caribbean basin to the United States, I firmly believe that all trade from that region should be allowed to enter into the United States both duty- and quota-free until such time as we are reasonably sure that the CBI beneficiary countries' economies are self-sustaining and can compete with other suppliers to the U.S. market. Such free trade access, in my view, would be in keeping with our overall commitments and obligations to the region and in no way would pose a threat to our other trading partners or to our domestic economy.

When looked at from an overall trade viewpoint, U.S. imports from the Caribbean basin beneficiary countries are extremely small when compared to other major suppliers to the U.S. market. Even in the more discreet area of apparel trade, the CBI region's trade in 1987 was less than 9 percent as compared to 15 percent for Hong Kong and 14 percent for the Peoples Republic of China.

In the case of apparel, I think it can be clearly demonstrated that a more open duty- and quota-free approach to the CBI presents no threat to the U.S. domestic industry.

We have seen increases in domestic production, shipments, employment and profit in both the textile mill sector and in apparel manufacturing. Under these conditions the small incremental increase in CBI shipments that would occur as a result of a fully open system would not be harmful to the domestic industry. To the contrary, I personally believe that a duty- and quota-free regime for the CBI region would only enhance the production and profitability of domestic textile and apparel firms.

However, notwithstanding my view that a more liberal regime based on duty- and quota-free access of CBI beneficiary countries is more desirable than modifications to the current system, I am sufficiently realistic to understand why the subcommittee at this time may not be prepared to consider such an approach and therefore, is prepared to consider only the limited liberalization provided for in the Caribbean Basin Economic Recovery Act of 1987.

Accordingly, I would like once again to underscore my support for those elements within the proposed bill that would serve to provide some liberalization to trade in apparel.

Having made clear my support for the Caribbean Basin Economic Recovery Act of 1987, I would like to address elements of the existing restraint program that governs trade in apparel from the Caribbean.

I do believe that Congress should scrutinize the Administration's special access program for apparel assembled in the CBI. The availability of additional quotas specifically reserved for products constructed of fabrics woven in the United States is only of benefit where, one, U.S. mills are producing the required products, and, two, where such products are offered to the market at reasonably competitive prices.

As a practical matter, 807A is of most utility where there is more than one U.S. competitor producing textile products for any given guaranteed access level, or GAL, category.

Where price competition is lacking in the United States, either because there is only one producer or because U.S. mills lack the technology or desire to compete, the GAL can represent a type of government-granted monopoly to one or more domestic producers, which discourages U.S. mills from competing.

I believe that all U.S. trade rules, policies and programs in the Caribbean should be evaluated on the basis of whether they are procompetitive. This is the only legitimate benchmark to measure policy in an economic environment, particularly where there are substantial potential conflicts of interest. Such is definitely the case in the 807 world where the apparel sector is often in direct conflict with domestic textile interests.

For the apparel industry, struggling to compete with low-cost Asian manufacturers, equal access to the raw materials demanded in our market is an undeniable threshold to competitive market entry. For U.S. manufacturers seeking offshore sourcing, as well as for Caribbean manufacturers seeking entry to the U.S. market, use of competitively priced raw materials is often the key to success or failure.

Ideally all apparel products manufactured in the Caribbean basin would be free to enter the U.S. market without quota or tariff restrictions. This, however, is unlikely to occur.

One option, short of duty- and quota-free access, would be to remove all quota restrictions on apparel produced in the Caribbean basin while granting special tariff exemptions to apparel manufactured of U.S. formed fabric. Thus apparel utilizing U.S. piece goods would be granted total duty-free treatment, while garments formed from textile products not qualifying for such treatment would be subject to value-added duties.

The results would be procompetitive and progrowth. Apparel manufacturers would have a substantial incentive to utilize U.S. textile products but would be able, when necessary, to seek alternative sources of textiles either in short supply or highly priced in the United States without sacrificing the interests of Caribbean or United States manufacturers for whom there is no available U.S. formed competitive textile product.

I believe that so long as GALs remain a fixture on the regulatory scheme for the region, this program must be governed by a progrowth rationale.

First, 807A should represent plus business; 807 quota levels should adequately cover existing production levels as well as the potential growth represented by nonqualifying textile products.

And 807A GALs should be used to provide special incentives to manufacturers to use U.S. formed textiles and should tend to expand the market in any country where it is available.

Second, a threshold availability and competitiveness test for U.S. textile products should be employed to determine whether GALs are appropriate for a particular finished product category.

Accordingly, an initial determination would be made as to whether U.S. mills are producing products for a particular category and, if so, whether those products are competitive.

This is particularly important since negotiators have to date evinced a strategy in CBI negotiations based in favor of expansive GALs without apparent regard for the availability of competitive U.S. raw materials. This new, more sensitive and sensible approach would prevent unnecessary and unwarranted restrictions on economic growth in the region's apparel sector as a consequence of unavailability or lack of competitiveness by U.S. mills.

I believe that a correct analysis would show that stimulative measures with respect to the apparel industry in the region would benefit the CBI countries as well as the U.S. apparel industry. This is true because the CBI nations represent an important group of trading partners uniquely situated to contribute to the increased competitiveness of the United States apparel industry.

One way this is achieved is by the emergence and growth of the United States/CBI twin plant operations. The Judy Bond Co. represents one such operation. Our company has been engaged in the manufacture of women's blouses for over 60 years in the United States, and in Alabama for the last 25. We currently employ over 1,000 people in four facilities in Alabama.

During the late 1970's and the early 1980's, Judy Bond was finding its market position threatened by Asian imports. It is critical to understand that those Asian imports gained a high degree of market acceptance in the United States not simply because they were less expensive, but in our case because they contained more desirable lightweight polyester fabrics than could be obtained in the United States.

As a result of the competitive incursion into our market, Judy Bond set about restructuring itself in order to be able to successfully compete with Asian imports. We were able to accomplish this objective by establishing a synergistic linkage between facilities in the United States and those in the Caribbean basin area.

Today, garments produced by Judy Bond are able to compete with apparel from Asia because of two reasons. One is strong manufacturing infrastructure in the Caribbean which, in conjunction with our domestic facilities, enables us to achieve the ability to compete on a price basis with Asia, and, secondly, we are able to obtain competitive textile products from Asia to make products which are comparable to the apparel coming from Asia.

A critical point is that Judy Bond's domestic plants, as well as those in the Caribbean region, must have access to competitive raw materials in order to remain viable and competitive. It is unfortunate at the present the U.S. textile industry is producing very few, if any, competitive lightweight polyester fabrics with which we can compete, not only in our Caribbean plants but also in our U.S. facilities.

And 807A therefore is of limited use to U.S. garment manufacturers such as ourselves in the absence of competitive U.S. textile products.

We believe any analysis of provisions contained in H.R. 3101 should be subject to a number of threshold considerations, the most important of which, I suggest, is that prior to the application of 807A type guaranteeing access levels, there should be a threshold test concerning the competitiveness and availability of U.S. textile products prior to drafting 807A on the otherwise normal relations between our country and those in the particular country.

We are not stimulating growth or making 807A represent plus business by simply taking away from 807 and giving to 807A. Indeed, absent competitive U.S. textile products, we are doing the opposite. We would have the effect of denying market access to either U.S. manufacturers in the Caribbean or Caribbean manufacturers themselves when they are forced to compete with restrictions that are not also in effect for competitors with Asia. And that is an important point.

The things that we are "giving" to the Caribbean Basin are in some cases Trojan horses. We give them the appearance of plus quota in the 807A framework. Generally the U.S. textile negotiating position has been to restrict 807 quota at the expense of 807A. Combined figures are often pointed to as being indicative of a progrowth posture for apparel in the region. Unfortunately, in categories such as our own, this happens not to be the case.

The availability of 807A without some threshold examination as to the availability of viable, competitive U.S. textile products will not bring jobs to the region—and in fact it has the adverse effect of sending people back to Asia in order to meet competition.

In an ideal world we would govern our relations on purely competition analysis. Under that analysis we would eliminate all quotas for apparel in the region. This represents a very small percentage of total imports into the United States, and indeed the entire region's exports of apparel represents something slightly more than half of that of Hong Kong.

Another approach that could be taken that might be interesting would be to give both duty-free as well as quota-free treatment to apparel manufactured of U.S. textile products, but only value added the treatment to such apparel not utilizing U.S. textile products. The effect would be to give garments manufactured from U.S. textile products a significant advantage when compared to a product manufactured with non-U.S. textile products, without trading growth in one sector for another.

In conclusion, for the Judy Bond Co., we have seen our employment increase by about 30 percent. We have found that by adding jobs in the Caribbean Basin, we are able to add jobs in the United States. Rather than being a threat to U.S. jobs, we believe that Caribbean employment can subsidize American jobs. This is not the case with Asia, which tends to displace American jobs.

In conclusion, for Judy Bond, the Caribbean Basin represents a place where we have increased our competitiveness while being able to expand our U.S. employment. We believe that stimulating growth in the apparel sector in the Caribbean Basin would advance the political and economic interests of the United States and would promote U.S. business interests.

I urge the committee to send a strong message to the administration that endorses the prospect of legitimate growth in the region.

Thank you very much.

Chairman Gibbons. Thank you.

[The statement of Mr. Postal follows:]

STATEMENT OF ANDREW POSTAL, PRESIDENT, JUDY BOND, INC.

My name is Andrew Postal, and I am President of Judy Bond, Inc., a company engaged in the manufacture and sale of women's blouses in the United States.

The Judy Bond Company has facilities both in the United States as well as in Haiti and Costa Rica and as a result, has a direct interest in the economic development of the Caribbean and Central American Region. It is my belief that the continued economic vitality of the region is not only vital to the economic and political interests of the United States, but also increasingly to United States apparel manufacturers in their attempts to successfully compete with Asian importers.

I come before you today to support congressional passage of H.R. 3101, a bill to improve the operation of the Caribbean Basin Economic Recovery Act. I particularly want to support those portions of the bill relating to the expansion of access in the U.S. market of apparel assembled or manufactured in CBI beneficiary countries.

It is my view that the provisions of the Caribbean Basin recovery act of 1987 which improve access for CBI suppliers of apparel and other manufactured products will provide real benefit to CBI beneficiary countries and to the American apparel industry at no real cost to other elements of the U.S. domestic economy.

While the 1983 Caribbean Basin Economic Recovery Act has served as a stimulus to the economies of CBI countries, some sectors, such as apparel, did not receive the full benefits of that legislation and, thus, have received no real benefit from the original Caribbean Basin Economic Recovery Act.

It is true that the President's special access program for CBI beneficiary countries that export apparel assembled of fabrics formed and cut in the U.S. has provided a measure of additional market access to CBI countries. However, there are serious faults in the policy and the administration of that special access program, commonly known as 807A or super 807, which continue to impede the orderly development of trade in apparel. It is for this reason that legislation is required to provide greater access to the U.S. market for CBI assemblers and manufacturers of apparel under rules that are orderly and predictable.

Given the political and economic importance of the Caribbean Basin to the U.S., I firmly believe that all trade from that region should be allowed to enter into the U.S. both duty and quota free until such time as we are reasonably sure that the CBI beneficiary countries' economies are self-sustaining and can compete with other suppliers to the U.S. market. Such free trade access, in my view, would be in keeping with our overall commitments and obligations to the region, and in no way would pose a threat to our other trading partners or to our domestic economy.

When looked at from an overall trade viewpoint, U.S. imports from the Caribbean Basin beneficiary countries are extremely small when compared to other major suppliers to the U.S. market. Even in the more discreet area of apparel trade, the CBI region's trade in 1987 was less than 9 percent as compared to 15 percent for Hong Kong and 14 percent for the Peoples Republic of China.

In the case of apparel, I think it can be clearly demonstrated that a more open duty and quota free approach to the CBI presents no threat to the U.S. domestic industry. We have seen increases in domestic production, shipments, employment and profit in both the textile mill sector and in apparel manufacturing. Under these conditions, the small imcremental increase in CBI shipments that would occur as a result of a fully open system would not be harmful to the domestic industry. To the contrary, I personally believe that a duty and quota free regime for the CBI region would only enhance the production and profitability of domestic textile and apparel firms.

However, notwithstanding my view that a more liberal regime based on duty and quota free access of CBI beneficiary countries is more desirable than modifications to the current system, I am sufficiently realistic to understand why the subcommittee at this time may not be prepared to consider such an approach and, therefore, is prepared to consider only the limited liberalization provided for in the Caribbean Basin Economic Recovery Act of 1987. Accordingly, I would like once again to underscore my support for those elements within the proposed bill that would serve to provide some liberalization to trade in apparel.

Having made clear my support for the Caribbean Basin Economic Recovery Act of 1987, I would like to address elements of the existing restraint program that governs trade in apparel from the Caribbean.

I do believe that congress should scrutinize the Administration's special access program for apparel assembled in the CBI. The availability of additional quotas specifically reserved for products constructed of fabrics woven in the United States is only of benefit where 1) United States mills are producing the required products; and 2) where such products are offered to the market at reasonably competitive prices. As a practical matter, 807A is of most utility where there is more than one United States competitor producing textile products for any given guaranteed access level (GAL) category. Where price competition is lacking in the United States, either because there is only one producer or because United States mills lack the technology or desire to compete, the GAL can represent a type of government granted monopoly to one or more domestic producer which discourages United States mills from competing.

I believe that all United States trade rules, policies and programs in the Caribbean should be evaluated on the basis of whether they are pro-competitive. This is the only legitimate benchmark to measure policy in an economic environment, particularly where there are substantial potential conflicts of interest. Such is definitely the case in the 807 world where the apparel sector is often in direct conflict with domestic textile interests. For the apparel industry, struggling to compete with low cost Asian manufacturers, equal access to the raw materials demanded in our market is an undeniable threshold to competitive market entry. For United States manufacturers seeking off-shore sourcing, as well as for Caribbean manufacturers seeking entry to the United States market, use of competitive priced raw materials is often the key to success or failure.

Ideally, all apparel products manufactured in the Caribbean basin would be free to enter the United States market without quota or tariff restrictions. This, however, is unlikely to occur. One option, short of duty and quota free access, would be to remove all quota restrictions on apparel produced in the Caribbean Basin while granting special tariff exemptions to apparel manufactured of United States formed fabric. Thus, apparel utilizing United States piece goods would be granted total duty-free treatment, while garments formed from textile products not qualifying for such treatment would be subject to value added duties. The results would be pro competitive and pro growth. Apparel manufacturers would have a substantial incentive to utilize United States textile products but would be able, when necessary, to seek alternative sources of textiles either in short supply or highly priced in the U.S. without sacrificing the interests of Caribbean or United States manufacturers for whom there is no available United States formed competitive textile product.

I believe that so long as GALS remain a fixture on the regulatory scheme for the region, this program must be governed by a pro growth rationale. First, 807A should represent plus business. 807 quota levels should adequately cover existing production levels as well as the potential growth represented by non-qualifying textile products. 807A GAL's should be used to provide special incentives to manufacturer's to use United States formed textiles and should tend to expand the market in any country where it is available.

Secondly, a threshold availability and competitiveness test for United States textile products should be employed to determine whether GALS are appropriate for a particular finished product category. Accordingly, an initial determination would be made as to whether United States mills are producing products for a particular category and, if so, whether those products are competitive. This is particularly important since negotiators have, to date, evinced a strategy in CBI negotiations based in favor of expansive gals without apparent regard for the availability of competitive United States raw materials. This new, more sensitive and sensible approach would prevent unnecessary and unwarranted restrictions on economic growth in the region's apparel sector as a consequence of unavailability or lack of competitiveness by U.S. mills.

I believe that a correct analysis would show that stimulative measures with respect to the apparel industry in the region would benefit the CBI countries as well as the United States apparel industry. This is true because the CBI nations represent an important group of trading partners uniquely situated to contribute to the increased competitiveness of the United States apparel industry. One way this is achieved is by the emergence and growth of United States CBI twin plant operations. The Judy Bond Company represents one such twin plant operation.

The Judy Bond Company has been engaged in the manufacture of women's blouses for over 60 years and in Alabama for over 25 years. We currently employ over 1,000 people in four facilities located in Alabama. During the late 1970's and early 1980's Judy Bond was finding its market position threatened by Asian imports. It is critical to understand that those imports obtained a high degree of market acceptance, not only because of lower cost but also because they were composed of far more desirable lightweight polyester fabrics that those available in the United States.

Judy Bond set about restructuring itself in order to be able successfully to compete with Asian imports. Judy Bond was able to accomplish this objective by establishing a synergistic linkage between facilities in the United States and facilities in the CBI region. Today, the garments produced in Judy Bond's domestic facilities are able to successfully compete with apparel imports from Asia and eastern europe in large part because:

1) We have established a strong manufacturing base in the Caribbean (particularly in Haiti and Costa Rica) which, in conjunction with our domestic plants, enables us to achieve the ability to compete on a price basis with Asian imports; and

2) We are able to obtain textile products from Asia to make garments which are, from a production and merchandising standpoint, comparable to apparel manufactured in Asia.

The critical point is that Judy Bond blouse plants must have access to competitive raw materials in order to remain viable. Unfortunately, at present, the United States textile industry is producing very few, if any, competitive lightweight polyester fabrics which we can use to keep our Caribbean or, indeed our United States facilities competitive with Asian imports. In fact, there is only one major United States producer that is even making the attempt to compete in our product categories. 807a, as a consequence, is of limited utility at present for Judy Bond when there is an absence of United States formed textiles which we can use to compete. Therefore, restrictions on 807A quota at the expense of 807 quota in our sector, represents a no-growth option. restrictions on our ability to utilize whatever materials our market demands erodes our competitive position and places us at a competitive disadvantage vis-a-vis Asian manufacturers who are under no such restrictions.

Judy Bond's experience in the Caribbean is by no means unique. There are a growing number of twin plant operations in the region. In addition, other United States manufacturers and consumers of apparel products as well as many Asian producers, who have traditionally sourced in Asia, are now looking seriously at the Caribbean Basin as an important new sourcing option. We believe that this phenomena represents an important opportunity for the region. It would be a real economic blow if CBI countries cannot capture this business.

For Judy Bond, our United States employment has actually increased by approximately 30% as we have grown in the Caribbean Basin. We have found that the synergy between our United States and Caribbean facilities yields a competitive entity that can compete with Asian imports while adding United States jobs. This is of critical importance. Imports from the Caribbean tend to protect and/or create American jobs, whereas Asian imports tend to displace them.

The administration of quotas by the United States in the past seemingly has been designed to limit growth of apparel imports from the pacific rim and to stimulate growth of the apparel industry in this hemisphere. If we are to capitalize on the trend of manufacturers moving from Asia to our hemisphere, we must seek to make the Caribbean region at least as attractive as Asia as a sourcing option. I urge the committee to consider a threshold competition test prior to the application of gals quota to any given apparel sector. I further urge that in the interests of both the region and United States apparel industry, that the apparel sector be permitted to grow in the region.

One further matter warrants discussion. As an American investor in the region, we are very concerned about the stability of our investments made in CBI countries. The provisions of the trade bill which might permit suspension of individual CBI benefits for specific countries, along with legislative proposals such as that currently concerning Haiti, are a great concern to investors such as ourselves. Where an investor finds an increase in the degree of uncertainty about their investments by virtue of the use of economic sanctions to achieve political objectives, that investor will have to think long and hard about the viability of the Caribbean as a sourcing option. Actions taken against one country, regardless of how limited in scope, have broad reaching effects for all countries in the CBI region. What can happen in Haiti today, can certainly happen in Jamaica or the dominican republic or other nations tomorrow. Offshore business enterprises are difficult enough to manage under the best of circumstances. The possibility of governmentally mandated business interruptions are a terrifying prospect and perhaps a substantial impediment for the region to attract business.

The Executive Branch of our Government has numerous foreign policy perogatives which it can use to achieve the policy objectives of the United States in the region. I believe it would be a mistake for Congress to send a message to the region and those investors seeking to do business in the region that such potential interruptions are to be deemed a normal part of the business environment in the Caribbean Basin.

In conclusion, for Judy Bond the Caribbean Basin has represented a means by which we have increased our competitiveness while being able to maintain, and indeed expand our United States employment. We believe that stimulating growth in the apparel sector in the Caribbean Basin will advance the political and economic interests of the United States and will promote United States business interests. I urge the committee to send a strong message to the administration and to United States industry that it endorses the prospect of legitimate economic growth in the region.

Thank you very much.

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Chairman GIBBONS. I have not had a chance to analyze all of your arguments about garments and textiles, but I shall certainly do so. I want to hear from Mrs. Dubrow and some of her witnesses before I do, though.

Mr. GUARINI. What is the general view of the American business community toward the present CBI? Is it not working, very inadequate, does it meet requirements? What is the prevailing view?

Mr. GIBERGA. If I may answer that, in the survey I referred to in my testimony, these include the opinions of roughly 3,000 U.S. businesses and businessmen. The feeling is that the CBI has helped in attracting attention to the area for new investments.

Mr. GUARINI. I am sorry, would you repeat that?

Mr. GIBERGA. The CBI, version I, has definitely helped to bring attention to the area, forces attention to the area, and this has attracted investments. It has not been as successful as our original intention was, because besides some of the exclusions that are part of CBI I which form some of the most potentially exportable products from the region, but the U.S. business community in the area is definitely pro-CBI because they feel that a lot of these restrictions would be eliminated with H.R. 3101 and S. 1594.

Mr. GUARINI. Is there a view that CBI I may have been filled with failing promises, that the promise was far greater than delivery?

Mr. GIBERGA. Yes. Because of the restrictions built into CBI I, it was not able to achieve its full potential.

Mr. GUARINI. Well, what part of the H.R. 3101 seems to be most popular or important in its priorities? Are there a few provisions that are looked upon as being very critical?

Mr. GIBERGA. Yes, sir. The 12-year extension, I think, was high on the agenda, followed by the duty extensions or the duty-free treatment; also the cumulation of treatment for injury test considerations is also very important.

That is more or less the rough order of priorities.

Mr. GUARINI. I understand that Costa Rica has taken good advantage of CBI compared to the other countries.

Is there a reason why Costa Rica has been so further advantaged than some of the other countries in making use of CBI?

Mr. GIBERGA. It is a hard question to answer. Of course, there is no one real reason.

In my own mind, I think there are several reasons. For one, there is great internal stability in Costa Rica, and it was able to quickly adopt and work into the CBI network.

Mr. GUARINI. Could it be also that they have a higher level of education and, therefore, greater skills?

Mr. GIBERGA. That is true also. But I have to believe that the fact that it is not threatened by instability, say, as El Salvador and Guatemala feel the impact of guerilla warfare every day, and the main concern is in a day-to-day struggle to survive by business and labor. That takes away the attention from the long term. They have to focus more on the short term, which is the day-to-day survival needs.

Because Costa Rica and the Dominican Republic and Jamaica have not had these internal disruptions, they have been able to look at the long term and take advantage of CBI.

Mr. **Guarini**. Mr. Muñoz and Mr. Postal are both from Costa Rica?

Mr. **Postal**. We manufacture in Costa Rica. We are based in the United States.

Mr. **Guarini**. Mr. Muñoz, can you answer, in your opinion, why Costa Rica has been so successful, and can the other countries benefit from your successes with CBI?

Your experience had been much better than the other 21 sovereign countries in the basin area.

Mr. **Muñoz**. Thank you very much.

My one strong guess at it is Costa Rica has had a long history of business relationships with U.S. business to start with, and was able to work upon it.

Mr. **Guarini**. You are not just rooting for Figueres? She is a very active woman.

Mr. **Muñoz**. She might be coming to Washington permanently, as you know.

Mr. **Guarini**. Yes, I hear.

Do you think the educational component in this bill is very critical? Many of the people in these areas, these countries, do not have the training and skills to do the manufacturing jobs or do anything other than cutting sugar cane and some of the basic agricultural skills.

Do you think that specific effort should be made in the educational training area in the Caribbean Basin?

Mr. **Muñoz**. That is certainly a sector that needs a lot of work from the Caribbean countries, you know, how to train the labor force, how to move them into more sophisticated forms of production.

I think Costa Rica was ideally suited to move into that direction right at the time when CBI I came along. That is the reason it is perceived as such a big success for Costa Rica internally.

Mr. **Guarini**. Right. Thank you very much.

Mr. **Pickle**. Mr. Chairman, I don't believe I have any questions. I have enjoyed the testimony and I appreciate these gentlemen coming in.

Chairman **Gibbons**. I see, Mr. Postal, you take lightweight polyester fabric from American textile producers.

Is it the price or the availability?

Mr. **Postal**. To a very large extent, it is more a question of availability than price.

For some period of time now, we have been using Asian imports. Prior to that time we were one of the largest consumers of lightweight polyester in the United States. We repeatedly pressed the American textile mills to produce that which their Asian competition was in fact producing.

Until recently it was just a total absence of the kind of product with which we compete. We are currently negotiating—we are the only U.S. mill today that is attempting to—to try to reach a new program.

The structural changes in that industry have also affected us. There are fewer competitors and fewer that have the financial wherewithal to compete with Asian counterparts. The price today is less of a concern. The dollar-yen changes that occurred over the last 18, 24 months have almost doubled the cost of textile products. We are not looking any more at a product that is substantially sold at a low cost. What we see is a change in the U.S. textile industry.

In our case we really only have one person to develop it.

Chairman GIBBONS. Why is that?

Mr. POSTAL. I am sorry?

Chairman GIBBONS. Is it just because there is a limit in the market for lightweight products?

Mr. POSTAL. No. The latest survey of the AAMA shows that blouses represents probably the single largest product category in the United States, with dresses being just behind them. We are talking somewhere in the neighborhood of $7 billion.

I don't believe it is because it is a small market share. Clearly that has been one of the areas Asia has targeted. If you look in the Pacific, you will find Hong Kong, Korea, et cetera, are all countries focused in on this.

Initially the fabrics that the Asians were producing were comprised of a thinner yarn, which was originally developed in Europe. Interestingly enough, when that was first brought here, there was no competitive reason why at that time the du Ponts of the world or indeed the Burlingtons of the world should retool their plants to accommodate these more difficult fibers to weave.

When those fibers were brought to Asia, the Japanese and later the Koreans saw that as a competitive opportunity. Those fabrics have really radicalized our markets. U.S. mills have not converted to the looms necessary to handle this product or the finishing equipment necessary to finish it.

Chairman GIBBONS. What kind of looms does it take?

Mr. POSTAL. Both water jet and air jet looms.

Chairman GIBBONS. Do you have a comment?

Mr. GIBERGA. Mr. Chairman, I can't resist the temptation to interject myself.

It so happens I am the operating officer of the U.S.-owned textile company which has a manufacturing operation in Costa Rica. We specialize in the yarns Mr. Postal is referring to, and we purchase all our raw materials in the United States. We purchase also our services, the transportation, insurance, banking services, et cetera. We export. We are small, very small, compared to many others. We export, however, all over the world, Pakistan, China, India. We export to the United States and Canada.

However, our trade balance with the United States is even. We purchase as much from the United States as we export to the United States. And this opportunity to testify before the subcommittee may just have brought a new customer.

Chairman GIBBONS. Well, I hope it works out like that.

Mr. GUARINI. Mr. Chairman, may I ask a question?

Do I understand, Mr. Postal, that the operations you have in Haiti and Costa Rica are important to your success and the profitability of your domestic apparel company here?

Mr. POSTAL. Precisely.

Mr. GUARINI. And without that, how would you be able to compete effectively?

Mr. POSTAL. Absent our ability to grow in the Caribbean Basin, we could not remain a viable, competitive factor.

Mr. **Guarini**. That would affect many jobs in the American marketplace?

Mr. **Postal**. In our case it would affect over 1,000. I suspect it would affect many more.

Mr. **Guarini**. You are talking about jobs of textile workers?

Mr. **Postal**. I would like to make a distinction between textile and apparel workers. I am talking about apparel workers, yes.

Remember one thing: The apparel industry in this country is labor intensive. The textile industry is essentially a capital-intensive industry. So the number of jobs one creates by virtue of dollar investment is greater in apparel than textiles.

The apparel industry shows an ability to pick up and move if that is what competition requires. It is harder to pick up a textile plant than it is to pick up an apparel plant.

Mr. **Guarini**. Are these apparel workers mostly union members?

Mr. **Postal**. In our case, no. But I suspect that there are as many union operations doing business today in the Caribbean Basin as there are nonunion.

Mr. **Guarini**. Thank you.

Chairman **Gibbons**. Thank you, gentlemen.

Now our International Ladies' Garment Workers' Union, Evelyn Dubrow, and the United Electrical, Radio & Machine Workers of America, Local 209, Kathi Garay, president.

Ms. Dubrow, take your time.

Ms. **Dubrow**. Thank you, Mr. Chairman.

As you know from our testimony, Jay Mazur hoped to be here, but contract negotiations prevented his being here, so I am asking that his statement be put in full in the record.

Chairman **Gibbons**. Certainly it will be.

Ms. **Dubrow**. Thank you.

STATEMENT OF EVELYN DUBROW, VICE PRESIDENT AND LEGISLATIVE DIRECTOR, INTERNATIONAL LADIES' GARMENT WORKERS' UNION, PRESENTING STATEMENT OF JAY MAZUR, PRESIDENT; ACCOMPANIED BY HERMAN STAROBIN, RESEARCH DIRECTOR, AND WILLIAM CUNNINGHAM, REPRESENTATIVE OF AFL-CIO

Ms. **Dubrow**. Mr. Chairman, members of the committee, my name is Evelyn Dubrow, vice president and legislative director. Appearing with me today is Dr. Herman Starobin, research director of the ILGWU. We are pleased to have the opportunity to testify on behalf of the president of our union. It has nearly 200,000 members employed in the production of women's and children's apparel and accessories in the United States, including the Commonwealth of Puerto Rico.

We believe that the well-being of the Caribbean and its population is of utmost importance to the United States. A special relationship exists between us and our neighbors to the south. Our union has even closer ties. Many of our members come from these lands; many still have families there.

We recognize the economic difficulties the Caribbean Basin has been undergoing and we would hope that these countries and ours could develop remedial programs of mutual benefit to workers and business in both areas.

Regrettably, the method chosen has been the Caribbean Basin Economic Recovery Act, CBERA. This legislation has done little to help the CBI countries and their workers since it was first adopted in 1983. Renewing and expanding it for 12 additional years would merely compound the tragedy.

We should find more appropriate vehicles to help the CBI area.

To date the CBI program, as a whole, has not succeeded. Total U.S. imports from CBI countries have undergone a major decline since CBI began. According to data published by the U.S. Department of Commerce, total 1987 shipments were running nearly 30 percent below those of 1983, the year before CBERA was adopted.

While total imports from the CBI area were declining, shipments of apparel have been soaring. Apparel shipments are up 175 percent since 1983, while non-apparel items have declined nearly 40 percent. In 1983 apparel accounted for 4.5 percent of total CBI exports to the United States. In 1987 apparel accounted for approximately 16 percent of CBI shipments.

Since CBI-origin apparel is not a substitute for apparel of other origin, but rather is an addition to it, the cumulative impact on the domestic apparel industry in the United States has been devastating. Over 300,000 production-worker jobs, or about 25 percent of the jobs in the industry, have been lost since 1973. In 1986 imported apparel accounted for 52.6 percent of the U.S. market. In 1987 the penetration ratio reached an estimated 55 percent.

Our industry work force is largely female, with many workers being new immigrants or coming from minority groups. Many come from the very same lands that are being asked to play a role in destroying their jobs in the United States.

The rising tide of apparel shipments from the CBI area results from the prevalence of low wage rates, compounded by a lack of effective trade union activity.

CBI countries can gain permission to ship virtually unlimited quantities of so-called super 807 apparel to the United States. A brief example will demonstrate this.

Haiti was granted permission to ship 2,500,000 brassieres to the United States under the super 807 program in 1987, and Jamaica was allowed to send 2,575,000 brassieres in the 16 months ending December 1987. These vast quantities were in addition to the amounts permitted under earlier agreements. The prior agreements did not require that the garments be made of U.S.-formed fabric.

Extension of the CBI program for 12 more years offers assurances of continuity to everyone except the U.S. garment producer and, in particular, the U.S. garment worker.

The first problem we have with H.R. 3101 is the increase in the allowable share of U.S.-origin component that may be counted toward eligibility for duty-free status. The amendment increases the allowable U.S. share to 25 percent in case of eastern Caribbean countries and reduces the local share to 10 percent. Reduction in the local share is an invitation to fraud and other abuse.

A second problem is the provision for removing the exemption from duty-free status, that is, permitting duty-free entry, where an otherwise exempt item such as apparel is either not made in the United States or not made in sufficient quantity.

This type of provision also has a long history of abuse. What the makers of such claims really mean is that these products cannot be made here as cheaply as retailers would like.

These loopholes will not help the CBI countries but can open the door to wholesale violation and transshipment of virtually completed goods to the United States in evasion of our already extremely liberal import regulations. The program can lead to massive loss of jobs in the United States. There is no way to tell where fabric was formed by examining garment parts.

The typical export-led development program, especially in the case of apparel, consists of setting up special zones outside the purview of even the most limited social and labor legislation that may exist. Women and children are recruited to work in these sweatshops, not the unemployed males already in the labor force. Wage rates under $1 an hour are typical.

Profits from the enterprise are typically repatriated by the foreign firms and only a tiny portion, if any, remains to help local development. The infrastructure of the country is usually neglected and seldom receives the necessary funds. Local economies are not able to improve living standards or health, education and other facets of modern life.

The CBI program encourages temporary industry, ready to run away when even more profitable opportunities arise. This has happened in Puerto Rico, where firm after firm has shut its doors, stranded its workers and moved to CBI countries seeking bargain-basement labor costs.

We should develop programs that concentrate on building infrastructure, encouraging growth in the internal market and building local economies. We should also encourage the development of free labor movements to help improve conditions in these countries.

Thank you.

And may I just add, Mr. Chairman and members of the committee, that the International Ladies' Garment Workers' Union was a farmer of a field, which works toward the free labor development of countries in South and Central America, and we have always encouraged any kind of a relationship that will help those countries, because we understand those needs and we want to encourage them to become independent and well off, as we hope we in the United States are.

Thank you.

Chairman GIBBONS. Thank you.

[The statement of Mr. Mazur follows:]

STATEMENT OF
JAY MAZUR, PRESIDENT
INTERNATIONAL LADIES' GARMENT WORKERS' UNION, AFL-CIO
ON H.R. 3101
THE CARIBBEAN BASIN ECONOMIC RECOVERY EXPANSION ACT OF 1987

March 28, 1988

I appear here today on behalf of the ILGWU and its nearly 200,000 members employed in the production of women's and children's apparel and accessories in the United States, including the Commonwealth of Puerto Rico. We welcome this opportunity to express our views on H.R. 3101, which would extend and modify the nation's Caribbean Basin Initiative.

Let me say from the outset that we believe that the well-being of the Caribbean area and its population is of utmost importance to the United States and its security. A special relationship exists between our country and our neighbors to the South. Our Union has even closer ties. Many of our members come from these lands; many still have families there.

We fully recognize the economic difficulties the Caribbean Basin has been undergoing and we would hope that these countries and our own could develop remedial programs that would be of mutual benefit to workers and business in both countries.

Regrettably, the method chosen has been the Caribbean Basin Economic Recovery Act (CBERA). This legislation has done little to help the CBI countries and their workers since it was first adopted in 1983. Renewing it for 12 additional years with the addition of unsound amendments would merely compound the tragedy.

The ILGWU respectfully urges your Committee to reject the extension proposal for the reasons we outline below. If the United States genuinely wishes to help our CBI neighbors, it should find more appropriate vehicles for the purpose.

The original CBI program consisted of three major facets. First and foremost was duty-free entry to the United States of CBI exports with the exception of certain textiles and apparel and other sensitive items. This was supposed to encourage exports and lead to economic growth, capital investment and local capital formation.

A second facet was emergency economic assistance. A third was tax benefits for firms investing in the CBI area.

Any reasonable examination of the CBI program must lead to the conclusion that it has not succeeded. Total U.S. imports from CBI countries have undergone a major decline since CBI began.

According to data published by the U.S. Department of Commerce, the Customs value of total U.S. imports from the CBI region declined 22.7 percent in 1985, 9.8 percent in 1986 and 3.6 percent in the first seven months of 1987. On an annualized basis 1987 shipments were nearly 30 percent below those of 1983, the year before CBERA was adopted.

There is little sign that the decline is a temporary phenomenon or that the CBI program has not had sufficient time to germinate. There is every indication that duty-free entry is simply not a sufficient incentive to boost overall exports to the United States, given the other problems of the region.

While total imports from the CBI area were declining, shipments of apparel have been soaring. This growth occurred despite the fact that apparel and textile products covered by the Multifiber Textile Arrangement were designated as exempt from duty-free entry because the Congress found that they were import sensitive and the domestic industry could be injured by heightened imports.

In 1984, the first year of the program, CBI apparel shipments to the U.S. (in Customs value) rose 24.6 percent. They advanced 29.7 percent in 1985 and 27.3 percent in 1986. In the first seven months of 1987 apparel imports soared 33.8 percent over the corresponding period of 1986. Apparel shipments are up 175 percent since 1983, while non-apparel items have declined nearly 40 percent.

In 1983, apparel accounted for 4.5 percent of total CBI exports to the U.S. In 1987, apparel accounted for approximately 16.0 percent of CBI shipments.

Since CBI-origin apparel is not a substitute for apparel of other origin, but rather is an addition to it, the cumulative impact on the domestic apparel industry in the U.S. has been devastating. Over 300,000 production-worker jobs, or about 25 percent of the jobs in the industry, have been lost since 1973. And there are no signs that this destructive trend is abating.

In 1986, imported apparel accounted for 52.6 percent of the U.S. market. In 1987, the penetration ratio reached an estimated 55 percent. If present trends continue, all signs point to the elimination of apparel as a viable domestic industry within a few short years. This would be most unfortunate since the workers who find employment in our industry have few employment alternatives.

Our industry work force is largely female, with many workers being new immigrants or coming from minority groups. Many of our members come from the very same lands that are being asked to play a role in destroying their jobs in the United States.

A number of factors account for the rising tide of apparel shipments from the CBI area. Of prime importance to a labor intensive industry like apparel is the prevalence of low wage rates, compounded by a lack of meaningful trade union activity.

Most CBI-produced apparel destined for the U.S. is made under the provisions of item 807.00 of the Tariff Schedules of the United States. Fabric cut into garment parts in the U.S. are shipped abroad for assembly and the finished garments returned with duty paid only on the value added in the foreign country. This tariff loophole minimizes any impact the exemption from duty-free entry might have had.

In addition, the CBI area is becoming a haven for garment producers seeking to avoid the quotas or other problems of the Far East. This is being fostered by President Reagan's program of Guaranteed Access to the American market for apparel sewn in the Caribbean of U.S.-formed fabric cut into parts in the U.S.

For all intents and purposes, CBI countries can gain permission to ship virtually unlimited quantities of so-called "Super 807" apparel to the United States. A brief example will demonstrate the giveaway nature of the program. Haiti was granted permission to ship 2,500,000 brassieres to the U.S. under the "Super 807" program in 1987, and Jamaica was allowed to send 2,575,000 brassieres in the 16 months ending December 1987. These vast quantities were in addition to the amounts permitted under earlier agreements. The prior agreements did not require that the garments be made of U.S. formed fabric.

It is for these reasons that the ILGWU opposes the extension of the CBI program for twelve more years. Its purpose is to offer assurances of continuity to everyone except the U.S. garment producer and in particular the U.S. garment worker.

I would now like to address some of the specific amendments of CBERA contained in H.R. 3101.

The first problem is the increase in the allowable share of U.S.-origin component that may be counted towards eligibility for duty-free status in the case of Eastern Caribbean countries. At present, a CBI shipment qualifies for duty-free entry into the United States only if 35 percent of the value of the product originates in the CBI country. The present law permits 15 of the 35 percentage points to be product of U.S. origin and requires the remaining 20 percent to originate in the local country. The amendment increases the allowable U.S. share to 25 percent in case of Eastern Caribbean countries and reduces the local share to 10 percent.

The reduction in the local share is an invitation to fraud and other abuse. If one seeks examples of the kinds of abuse that arise under such arrangements one need look no further than the situation that has developed in the Northern Marianas. These islands have become little more than a way stop for the shipment of Asian-made sweaters to the United States under the banner of the U.S. flag and in avoidance of the quotas that would normally apply.

An article in Women's Wear Daily on December 2, 1987 noted that garments were being made in the Marianas under sweatshop conditions that undermine the working and living standards of the workers.

The Islands' special trading relationships with the U.S. -- similar in some respects to those envisioned for the CBI area -- are being abused with the avoidance of U.S. import rules.

A second problem with the bill is the provision for removing the exemption from duty-free status (i.e., permitting duty-free entry) where an otherwise exempt item such as apparel is either not made in the U.S. or not made in sufficient quantity. This type of provision also has a long history of abuse.

For example, it has been claimed in various trade proceedings, including those under GSP, that apparel made of fibers of a type not produced in the United States should not be subject to restrictions even though they are fully competitive with American made products made of other fibers. There are also frequent complaints from retailers that various apparel items cannot be made in the United States. What is really meant is that these products cannot be made here as cheaply as retailers would like. This type of provision also opens the door to abuse.

These additional loopholes will not help the CBI countries but can open the door to wholesale violation and transhipment of virtually completed goods to the United States in evasion of our already extremely liberal import regulations. The program not only invites massive loss of jobs in the U.S., but allows for abuse and cheating, since there is no way to tell where fabric was formed by examining garment parts. The history of fraudulent dealings under the Multifiber Textile Arrangement -- mislabeling, transhipment and the like -- is ample reason to be concerned about the "Super 807" program.

The CBI program has also largely failed in its avowed intention of promoting economic development in CBI countries. These areas have fallen victim to the "export-led development" myth that so many other parts of the world have fallen for as well.

The typical export program, especially in the case of apparel, but also in other assembly-type work, consists of setting up special zones outside the purview of even the most limited social and labor legislation that may exist in these areas. Women and children are recruited to work in these sweatshops, not the unemployed males already in the labor force. Wage rates under $1.00 an hour are typical.

The isolation of the "export platform" from the local economy has other insidious features. The profits from the enterprise are typically repatriated by the foreign firms that have come in to establish the factories and only a tiny portion, if any, remains to help local development. The infrastructure of the country is usually neglected and seldom receives the necessary funds. Little is done to help the population sustain itself. As a result, local economies are not able to improve living standards or health, education and other facets of modern life.

The CBI program encourages the establishment of temporary industry, ready to run away again when even more profitable opportunities arise. Keep in mind in this regard the developments in Puerto Rico, where firm after firm has shut its doors, stranded its workers and moved to CBI countries seeking bargain-basement labor costs.

If we sincerely want to help our neighbors, we should develop programs that concentrate on building infrastructure and encourage growth in the internal market and in the building of local economies. We should seek to encourage the development of free labor movements in order to help to improve conditions in these countries.

The present CBI program is not the way to accomplish these goals, nor is the amended and extended version. I urge you to reject H.R. 3101.

Thank you.

Chairman GIBBONS. Now Ms. Garay.

STATEMENT OF KATHI GARAY, PRESIDENT, LOCAL 209, UNITED ELECTRICAL, RADIO & MACHINE WORKERS OF AMERICA (U.E.), PRESENTING STATEMENT OF JOHN H. HOVIS, JR., GENERAL PRESIDENT, U.E.: ACCOMPANIED BY LANCE COMPA, WASHINGTON REPRESENTATIVE

Ms. GARAY. Good afternoon. My name is Kathi Garay.

I have a prepared statement that I would like to enter.

I am accompanied by Lance Compa, U.E. Washington representative.

I come here on behalf of Bryant Electric. It is a division of a corporation otherwise known as Westinghouse.

We are losing 450 jobs, thanks to the Caribbean Basin Initiative. We are a work force the majority of which are women, and 60 percent of those are minority workers.

My background in Bryant Electric is we make the circuit protective devices in the load center boxes that power your homes and power this very building. Westinghouse came to us, the union, in January 1987, and told us that they had decided to have a feasibility study about our plant, and the building being old and hindering productivity. The building is close to 100 years old, but it once employed 1,200 people, and it was made in the last World War. We made torpedoes in that building. The building is structurally sound.

They came to us and they said that they were thinking of moving their operations because of the building. We got together with the city and the State and we tried to give them alternatives. We believed them. We figured that they really were looking at this, and we wanted to do what we could to help.

We got ahold of the mayor of the city, we got ahold of the Governor, and we offered Westinghouse alternatives to running away. The city offered them space to rebuild, the state offered them tax breaks. The corporation came down to Bridgeport, met with our mayor and said, no, thanks, we are not interested in these stakes.

The real thing was that is the first time we heard about the Caribbean Basin Initiative. When we were over there trying to help them out with what they claimed to be a problem with the building, we read in the New York Times that Westinghouse is building a building out in the Dominican Republic and that it soon would take away—would take the electrical products. We find it difficult to comprehend the reasons for this calamity.

We could understand the plant closings, a plant closing that was an outdated plant. We could understand closing a plant that made products for which there was an inadequate demand. However, our plant is a modern facility making a product whose market is expanding.

Bryant continues to manufacture in a new plant in the Dominican Republic.

We find it difficult to understand why our elected officials in Washington seem to be indifferent to our crisis. If a tornado had struck our town and caused over $4 million in damages, the Federal Government would have rushed in to help. Unfortunately it is a man-made disaster, rather than a natural disaster.

I deal with the human aspect of the plant closing and the end results of the Caribbean Basin initiative. I can't tell you how many lives have been lost since the notice that this plant was going to close, and the devastation that it has created in our community.

If this is allowed to continue—Bridgeport, CT, used to be called the industrial capital of Connecticut. There are no jobs left in that area. Our mayor has told us that, and that the city is bankrupt. The devastation caused to these people because of Westinghouse's decision to go to the Caribbean Basin—20 years ago there were 1,200 workers in Bryant Electric and at the time we were working full force. That is when they went to Puerto Rico and decided to build a plant there. They said it would complement their product.

They went there, and now they are closing Bryant altogether. The impact of the loss of jobs has a ripple effect in our community which will cause 700 jobs to be lost.

We are opposed to this initiative because of the devastation it caused in our community.

We call on you to not support this. We call on you to bring the jobs back to the United States and to help our people work.

Lance?

Mr. COMPA. No, that is fine.

Ms. GARAY. Thank you.

Chairman GIBBONS. Thank you.

[The statement of Mr. Hovis follows:]

STATEMENT OF JOHN H. HOVIS, JR., GENERAL PRESIDENT, UNITED ELECTRICAL, RADIO AND MACHINE WORKERS OF AMERICA (UE)

On January 30, 1987 the City of Bridgeport Connecticut received its first lesson in international trade when Bryant Electric, a division of Westinghouse, announced that it was closing our plant and moving production to the Dominican Republic. The loss of this facility will have a devastating effect on the workers in the plant and on the community as a whole.

We are a work force of women (approximately 50 percent) and minorities (approximately 60 percent) at the Bridgeport plant and by the middle of this year 450 of us will be unemployed. Because over 70 percent of us live in the town of Bridgeport our unemployment will reduce the flow of money into the community by between 4.6 and 9.2 million dollars. This will result in the loss of an additional 300 non-manufacturing jobs. Local government will lose about 200,000 dollars in tax revenues, causing a decline in the quality of life that will make it more difficult for the city to attract new business.

Faced with the loss of about 750 jobs we began to investigate our future employment prospects. If the workers at Bridgeport follow the pattern that has been typical of the five million experienced workers who have been dislocated between 1981 and 1986 about eighteen percent of us will join the ranks of the long term unemployed, fifteen percent of us will become so discouraged that we leave the labor force entirely and 10 percent of us will find only part-time work. Because 60 percent of all the new jobs created since 1979 pay less than 7,000 dollars a year, 40 percent of us who are lucky enough to find full time work will face substantial pay cuts. Bryant Electric's decision to close our plant is a calamity from which neither the Bridgeport workers nor the town will recover in the near future.

We find it difficult to comprehend the reasons for this calamity We could understand closing a plant that was out dated. We could understand closing a plant that made products for which there was inadequate demand. However our plant is a modern efficient facility making a product whose market is expanding. Bryant Electric plans to continue to manufacture our product lines in its new plant in the Dominican Republic. We also find it difficult to understand why our elected officials in Washington seem to be indifferent to our needs in this crisis. If a tornado had struck our town and caused over 4 million dollars in damages, the Federal government would have declared us a disaster area and rushed in with aid. Unfortunately we are victims of a man-made rather than a natural disaster, an economic tornado, and therefore find ourselves cut off from the help we should be getting from our elected officials.

We began to wonder if this calamity was unique to our community. Was Bryant Electric's decision to move production abroad an anomaly, or is "off-shoring" a trend in the American economy? If it does represent a trend we wanted to understand the impact it might have on other American workers and on the economy as a whole. Our investigation led us to some rather shocking conclusions.

We found that 242 of the 500 largest transnational corporations in the world are American owned. According to the U.S. Commerce Department's 1982 Benchmark Survey (the latest year for which figures are available), U.S. owned companies had over 18,000 affiliates in foreign countries and employed almost seven million foreign workers. In 1960 American firms invested nine times as much in the U.S. as they did abroad. By 1978 American firms invested less than four times as much in their own country as they did abroad. As might be expected, growth in foreign investment has led to growth in foreign output. The overseas production of these American owned firms has grown by 77 percent between 1977 and 1982, exceeding the rate of growth for domestic output. As of 1982, 32 percent of the total output of these large American multinationals was produced abroad. Clearly "off-shoring" is a problem that goes beyond Bryant Electrics plant in Bridgeport Conn.

What impact does this have on the American economy? In the first instance of course it results in a loss of jobs for American workers. Some types of foreign investment, like natural resource exploration and personal and financial services, are not likely to injure employment possibilities in the U.S. However in 1982 American owned transnationals employed over four million foreign workers in manufacturing facilities and each and every one of these jobs represents a job lost to America's working people.

We also found that multinational investment abroad has had an injurious effect on the American economy that reaches far beyond the loss of jobs in manufacturing. Our investigation led to the conclusion that multinational investment is the chief cause of the record breaking trade deficits that have been plaguing our country for the last 12 years. In 1986 2.5 million jobs were lost, 475,000 in the electrical and electronic industry, due to trade imbalance. Our 170 billion dollar trade deficit raised the 1986 unemployment rate by a full two percentage points.

In the last few years the United States has tried to cure the trade deficit with almost every standard economic policy. We have increased and then decreased the value of the dollar. We have entered into bilateral and multilateral trade agreements. We have used tariffs and quotas, threats and negotiations all to no avail. In the last ten years we have tried to improve the international competitiveness of our industrial sector through corporate restructuring. The real average wage of production workers has fallen by 14 percent. Yet our "lean and mean" restructured corporations with their now underpaid work force have been unable to lower the trade deficit.

A quick look at our history reveals that we used to be a country that could have the highest paid industrial work force in the world and run a trade surplus every single year between 1894 and 1970. We beat our competitors because our industries were the most efficient not because we manipulated the value of the dollar, instituted tariffs or lowered the standard of living of our own work force. But industrial efficiency depends on capital investment and American corporations have chosen not to invest in America. When an American-owned multinational produces a commodity abroad and sells it in a foreign market no foreign exchange is returned to the U.S. When a multinational produces a product abroad and sells it back to the U.S. it is registered as an import. In 1976, when the U.S. ran a 50 billion dollar trade deficit foreign affiliates of U.S. owned-corporations registered 212.8 billion dollars in sales in both foreign and U.S. markets. If that output had been produced in the U.S. our exports would have increased and our imports would have decreased such that the U.S. would have enjoyed a 160 billion dollar trade surplus.

By 1985 the situation had gotten much worse. American owned multinationals sold 182 billion dollars worth of goods in the countries in which they are located. These same plants exported 112 billion dollars worth of goods to other countries including 37 billion back into the U.S. This 294 billion dollar sales volume is greater than total U.S. exports for that year. In effect, with more domestic investment our exports would have doubled and more than wiped out our trade deficit. Last year about 20 percent of all goods imported into the U.S. were produced by American owned multinationals. The economies of the less developed countries are so dominated by American-owned firms that they have been turned into "export engines" for the multinationals. Almost 80 percent of Singapore's and about 50 percent of Hong Kong'imports to the U.S. were produced by U.S. capital.

We looked closely at our trade relations with the Dominican Republic and found that, as of 1982, there were 46 American owned affiliates operating in that tiny country. The U.S. absorbs about 2/3 of all the Dominican exports produced by those American owned facilities. Between 1983 and 1986 our imports of manufactured Dominican goods grew at an annual average rate of about 11 percent. Imports of electrical and electronic equipment rose from 22.7 million to 24.6 million dollars. The Department of Commerce figures indicate that we absorbed 248 percent more Dominican electronics exports in the first quarter of 1987 than we did in the first quarter of 1986.

We had hoped that our investigation would lead us to conclude that the people of the Dominican Republic had obtained some benefit from the flight of American capital. However an examination of the Dominican standard of living indicates that they are as much the victims of capital mobility as we are. Two-thirds of all the land is owned by just nine percent of the wealthiest land owners. Prior to its decision to diversify, Gulf & Western dominated the country's economy. In a country where only 14 percent of the land is arable this one multinational owned fully two percent of the National territory. Gulf & Western destroyed the Dominican sugar workers union, Sindicato Unido, and prompted the arrest of its leadership. The company also created the industrial "free zones" where all trade union activity is forbidden. The combined pressure of a landless peasantry and labor repression has depressed the minimum wage to fifty cents per hour. Yet even this incredibly low wage rate has not reduced unemployment which hovers between 30 and 40 percent. Only 68 percent of the population of the Dominican Republic is literate, only 57 percent have clean drinking water and the infant mortality rate averages 74 deaths per 1000.

Both U.S. and Dominican workers have seen capital mobility destroy their standard of living. The only consistent winners in this game seem to be the multinationals. In 1981 the rate of profit for the six major U.S. based multinational electric firms was 7.2 percent worldwide, but reached 10.1 percent in foreign operations. In the same year 131 of the largest U.S. based multinationals earned almost one-third of their profits outside of the U.S.

When we understood the effect that foreign investment was having on both American and foreign citizens we began to investigate how to improve what we presumed would be already existing Federal policies to curb this hemorrhage of American resources. We were shocked to find that rather than seeking to limit foreign investment, our elected officials were using our tax dollars to increase the flow of American capital abroad. The Caribbean Basin Initiative of 1983 allows American corporations to increase our country's trade deficit without the inhibiting effects of tariffs. Section 936 of the Internal Revenue Code, which provides special tax breaks for investments in Puerto Rico, has been used by U.S. firms to set up "twin plants" in other parts of the Caribbean. These goods can be shipped back to Puerto Rico for finishing duty free and without the loss of the tax break. Section 806.30 and Section 807 of the U.S. Tariff code reduced tariffs on imports which contain U.S. produced components, creating an incentive for investment in the maquiladoras of Mexico.

When tax breaks and lowered tariffs do not provide enough incentive for capital flight, the Overseas Private Investment Corporation (OPIC) will provide runaway American firms with a feasibility study, a loan of up to 2.5 million dollars, subsidized insurance against the risks of overseas investment and grants of up to 300,000 dollars. Much to our surprise we found out that the Department of Commerce intended to sponsor a seminar in Acapulco to encourage the flight of American capital to Mexico. We began to perceive that the Federal Government, rather than being opposed to the draining of American capital, was actually running a full service "one-stop-shopping" program for firms that were interested in leaving the United States.

If steps are not taken to discourage the flight of American capital we may soon find that our country looks very much like a third world nation. In the past five years we have gone from being the world's largest creditor to the worlds largest debtor nation. We now owe foreigners about 300 billion dollars. To compensate for our large trade deficit we must encourage an influx of foreign capital, leaving our country hostage to the influence and investment decisions of others. Our wage rates, historically the highest in the world, have fallen behind those of many nations in western Europe. The Vice President of Goodyear Rubber has been bold enough to say that investment cannot return to the U.S. until American wages are comparable to those of Korea or Brazil.

The U.S. became a leader in industrial production because we had the highest, not the lowest, wages in the world. The pressure of high wage rates forced American firms to use innovation rather than exploitation to reduce costs. In the United States we have traditionally beaten our foreign competitors, who always had cheaper labor, because technology gave us higher productivity. This productivity allowed us to have both the lowest prices and the highest paid workers. Economists acknowledge that the availability of cheap labor is generally the most potent barrier to technological improvements. Labor and capital compete with each other for use in the production process. The machine must be cheaper than the labor it replaces and as the cost of labor declines technological innovation stagnates.

By allowing, and in fact, encouraging American manufacturers to invest in low-wage regions, we are providing them with an incentive to beat the competition off the backs of workers rather than off the brains of engineers. The free enterprise system promises that economic growth and development will generate a higher standard of living because the competition of the market place forces the productivity gains that make a higher standard of living possible. It is a perversion of that promise if growth is generated through increasing immiseration, both in the United States and the third world. Yet this is the inevitable outcome if we permit the American corporation to rely on cheap labor rather than high productivity. For the American government to permit and even encourage corporations to compete through low wages instead of improved productivity is to encourage a perpetually downward spiral in the standard of living of both Americans and the workers of the third world. When all firms are paying 50 cents an hour what will be the basis of any firm's competitive edge except its ability to again reduce wages and the standard of living. The American standard of living was the one to which the whole world aspired. Given the statement of the Vice President of Goodyear it seems that the third world will provide the standard of living to which we must all fall.

Economists tell us that nations trade on the basis of comparative advantage. Because of our historically high wage rates the United States had to develop a comparative advantage in capital intensive goods. In order to maintain this comparative advantage we must have investment. It seems that American corporations, with the help and cooperation of the American government, have decided to give away our comparative advantage and invest in other countries.

We were not terribly surprised to find Westinghouse indifferent to the needs of U.S.

and foreign workers. A private corporation represents only its own interests: increasing the rate of profit is more important to Bryant Electric than the welfare of the town of Bridgeport, the standard of living of the workers in our plant or the infant mortality rate in the Dominican Republic. However our elected officials are supposed to represent the national interest. They are supposed to guard the national welfare against the encroachments of powerful special interest groups, like multinational corporations. We used to be angry at Westinghouse now we are angry at our Government.

We do not vote for the Board of Directors of Westinghouse and are unable to influence their decisions. We do vote for Senators and Congressmen and are determined not to vote for those who pursue policies that lead to a decline in the American standard of living, an increase in the trade deficit and the exploitation and repression of workers in other countries. We know that over 500 million dollars of U.S.A.I.D. money was spent in the Dominican Republic between 1962 and 1967. We know that our tax dollars built every single public project in that unfortunate country in 1966 and 1967. We know that those projects, rather than improving the standard of living for Dominicans, created the infrastructure that was the precondition for the operations of the multinationals. We know that the Reagan Administration distributed 7.6 million dollars in the form of Foreign Military Sales Credits to the Dominican Republic in order to further the repression of that country's labor movement. And we know that we will vote out of office those who wish to continue these policies.

We call on you, our elected officials, to protect the national interest. End all funding for the Private Overseas Investment Corporation and eliminate all tax benefits that promote capital flight from the U.S. These two measures would help to stem the tide of "off-shoring" and add badly needed revenues to the Federal budget.

We also ask you to begin to address the problem of revenue lost to State and Local government through capital flight. We call for a Federal Overseas Investment Tax on the profits American-owned multinationals earn abroad. This tax should be equal to the average rate of State corporate taxation and would be distributed, on a pro rated basis, to states that have lost production facilities to overseas investment.

It is clear that the United States cannot prosper if our national resources, the very basis of our "comparative advantage" in international trade is lost through capital flight. It is up to the Congress to conserve our country's productive capacity through the creation of disincentives to overseas investment.

Chairman GIBBONS. Ms. Garay, how long have they been a part of Westinghouse?

Ms. GARAY. About 30 years.

Chairman GIBBONS. You say that plant was 100 years old?

Ms. GARAY. Yes. It has been in the electrical business for 100 years.

Chairman GIBBONS. Well, I realize—is it a multi-story building?

Ms. GARAY. It is a multistory building. We have recently changed over to the just-in-time method, where even though it is multistory, conveyors allowed it to go from the production floors right out to the receiving docks within a matter of an hour.

Mr. COMPA. Mr. Chairman, I think the important point here is that Westinghouse initially claimed that it was the age of the building and the multistory structure that were the causes of its difficulties. But when the city and the state offered the company practically unlimited assistance in either acquiring an existing facility that met its needs or building a new facility, the company declined because of the requirements associated with moving. That turned out to be the real reason they were making the move.

Chairman GIBBONS. The duty-free entry of this product?

Mr. COMPA. And the extension of the section 936 twin plant incentives.

Chairman GIBBONS. Ms. Dubrow, I imagine you feel like the neglected child or worse in all of this. Certainly your workers will have to absorb, if this bill becomes law, a larger portion of the sacrifice that goes into it than probably any union or any workers, because of the characteristics of your production.

I have been struggling with that myself, to try to figure out what we can do.

Has your union made any attempt to unionize any of the plants in the Caribbean?

Ms. DUBROW. Of course, we are one of the larger unions in Puerto Rico, being part of the Unions of America. We have worked with the trade unions in those areas.

But the feeling is that as it is on the mainland and here, that where you have employers who feel that they do not have to recognize a union, they do not encourage their workers to join unions, and it makes it very difficult.

We have a lot of international organizations that work together. But our feeling is that as long as there are forces in the United States that encourage employers to export the jobs to places where sweatshop wages continue, it is going to be impossible either to organize those workers or keep the jobs of garment workers in this country.

As you know, Mr. Chairman, our feeling has been for a long time that what we need is a global quota system where the CBI countries would be part of that, where it would be up to the administration to decide that, if they thought it was more important to help the Caribbean Basin nations rather than all of the countries that now are industrialized and take a good share of imports, that this would be the way to handle the situation.

As it is, offering this legislation simply exacerbates the situation. Where we have lost 300,000 jobs, we suspect that within the next 4 years we will lose close to half a million jobs.

The tragedy of it all is that the people who will lose their jobs are people who are not easily employable. They are the people who look to our garment plants for their incomes. They are people who don't want to have to go on welfare, but they don't know where else to go for jobs.

So it gets to be what we call a vicious cycle. The worker loses a job because the import situation in this country is so tragic.

We think we can find an answer. We think that the Caribbean Basin nations ought to get some help with infrastructure. We think the local economies need some kind of help. We don't think the answer is really to export the jobs of American workers, and this is purely what we see this legislation will do.

I know, Mr. Chairman, it is one of your favorite pieces of legislation, and Congressman Pickle's, and I don't quite know where Congressman Guarini stands because he has many garment workers not only in his area but in New Jersey who stand to lose their jobs.

I can only say we are appealing to you to consider the situation and to recognize that it is going to affect the economy of this country, the trade situation in this country, and to ask you to reconsider.

We think that extending the CBI agreement to 12 years is an unconscionable length of time because who knows what is going to be happening? We have a very important election coming up in this country and there are many things that might occur within the next year or two. We think legislation that calls for a 12-year extension could be extremely dangerous, not only to the apparel and textile and other industries, but I think to the economy of America as a whole.

So we are asking for your full consideration of this position before you decide to press for this legislation.

Chairman **Gibbons**. May I say on the 12-year extension, I think in the omnibus trade bill that is one of the provisions that has already been agreed to.

Is that correct?

Ms. **Dubrow**. No, it is not. No. The omnibus trade bill does not affect us at all in that sense. We are not quite sure what that is going to be by the time it comes out of conference, anyway.

Chairman **Gibbons**. Nobody is.

Ms. **Dubrow**. Unfortunately.

Mr. **Pickle**. Thank you, Mr. Chairman.

Several years ago when we had similar legislation before us, we had witnesses from the textile industry, from labor unions, saying that CBI imports were devastating to the United States, and that we ought not to pass that legislation. They quoted—some of you may have been here—statistics showing what terrible damage was done because of these imports, and said that it gets to be a serious problem for our country.

No one, though, was able to tell us what percentage of those imports came from the CBI countries.

Can any of you tell us what percentage we are talking about from the CBI countries?

Ms. **Dubrow**. Yes. In 1983 apparel accounted for 4.5 percent of the total CBI exports.

Mr. PICKLE. You are saying that because you had 4.5 percent, that is devastating to your garment industry?

Ms. DUBROW. In 1987 it increased to 16 percent, Congressman Pickle. And we believe that it will increase a great deal more.

Mr. PICKLE. Well, I am advised that the Department of Commerce tells us in 1987 that imported ladies' garments was only around 3 percent, between 3 and 4 percent, not 16 percent. So we have a difference in figures.

I don't know what the source for your figures is.

Ms. DUBROW. The Commerce Department.

Mr. PICKLE. Mine is the Department of Commerce. They said the CBI imports of ladies garments for 1987 accounts for about 3 to 4 percent of worldwide imports. Now you say 16?

Ms. DUBROW. That was in 1983. It has since gone up.

Incidentally, this is William Cunningham who represents the AFL-CIO. He is substituting for Dr. Starobin, who unfortunately had to go out. Like the chairman, he is not feeling very well.

Mr. CUNNINGHAM. I think you are looking at total worldwide textiles. Mrs. Dubrow is talking about textiles from the Caribbean area. Textiles from the Caribbean area have increased.

Mr. PICKLE. Whether we use the worldwide figures of the Department of Commerce or your figures from the CBI, it is a relatively small percentage of world imports. We have to look at the whole picture, not just CBI countries alone.

On the subject that you pose, the legislation 2 years ago, I assume you are opposed to any extension of the CBI again; is that correct?

Ms. DUBROW. As far as textile and apparel are concerned.

Mr. PICKLE. Can you tell me what industries other than—you say garment—any other industry per se, not just a single factory, that is going to be severely damaged because of this legislation?

Ms. DUBROW. Well, I don't have the statistics, but I would think that a number of the industries in this country would be severely damaged by a bill such as this one that has been introduced. I don't pretend to speak for the other groups.

I think perhaps the AFL-CIO might have more statistics. I can only say that we do not think that this kind of piecemeal legislation is going to do the job.

I have talked with a number of people who have been down to the Caribbean who feel very strongly that those countries need help. Their feeling is one of the major things that should be done is to give them funds for infrastructure to build their roads and their bridges, just as in this country we have a problem. They feel very strongly that the local economies have not been developed, and they feel also very strongly that unfortunately the Caribbean basin countries are being made victims of other countries. There is no way of checking how much that abuse—what percentage that abuse causes in terms of the local economies losing out.

You see, it is not a piecemeal situation, Congressman Pickle. We have said right along——

Mr. PICKLE. Do you say CBI is a piecemeal legislation?

Ms. DUBROW. We consider it piecemeal in terms of the whole import situation. We feel very strongly that countries like South Korea and Taiwan and Hong Kong and even some of the European countries have taken advantage of sending apparel to these countries, using them as a transshipment point, having them put a stitch in or a button in and then sending them to this country supposedly as apparel from the Caribbean Basin countries, and they are not.

That is one of the problems.

Mr. PICKLE. I don't wish to argue with you about whether or not I think they are abusing the CBI. As far as I know, there is no great abuse of it.

I take it you did not want CBI 2 years ago and don't want an extension of it now?

Ms. DUBROW. I think the Caribbean movement opposed the Caribbean-based initiative. We were concerned with apparel, which was in a sense exempted. Now there is an attempt not only to include us, but to cut out a good part of our industry here in this country.

Mr. COMPA. Mr. Chairman, I would like to address a couple of Mr. Pickle's points.

We have not taken a position for or against CBI. We would be disposed to strengthen the job protection provisions for people in the situation of Ms. Garay's local and strengthen the worker protection provisions for workers in the Caribbean Basin countries.

I don't have the macroeconomic figures. In an economy of 110 million U.S. workers, 450 people in Bridgeport I suppose don't count for much, but for them it is their livelihood that is at stake.

I think the flaw is in the assumption of what will help the Caribbean-based countries develop. I think there is no dispute about the desirability of those countries developing their economies, developing their democracies and so on. But I think the assumption that the way for them to do that is to—take this example, for Westinghouse Electric Corporation to close down a plant in Bridgeport, CT, and set up operations in the Dominican Republic, I think that is where the flaw is.

In the Dominican Republic a company like Westinghouse will develop the few of the thousands and thousands of unemployed workers there, all of whom will be in competition with each other for lower wage rates. The companies tend to set up in free trade zones where what social legislation or wage protection might exist are discounted in many ways.

In the course of all this, Westinghouse is not going to cut the price of its products when they bring them here. It is going to increase the profit margin, and they were already making comfortable profits in the Bridgeport operation. It is a growing section of the Westinghouse business.

I think we can put our interest toward a development strategy that helps them develop, as Ms. Dubrow said, their infrastructure so their own economies can develop naturally, help them develop industry to serve their agricultural sectors, rather than big multinational corporations closing down successful factories here and setting up factories there to basically exploit low-wage workers in those countries.

Ms. DUBROW. Mr. Chairman, may I add one point?

I would like to say to Congressman Pickle and to the members of the committee that we would like very much to work on trying to figure out how to help these Caribbean Basin nations, and I think the AFL–CIO would like to do it. We feel that under the circumstances the textile and apparel area of it is really not negotiable. But we certainly would like to sit down and work out what we think can be helpful to these Caribbean countries.

As I say, my union membership is made up of many Costa Ricans, people from the Dominican Republic, people from Panama. You name them, we have them in the garment industry, and we are concerned about what happens with the countries they come from.

So we would like very much to try to work out a program that would be helpful to these countries.

Mr. PICKLE. You and I know that the economic stability of those nations down there depends a great deal on their opportunity to create jobs. If we are going to keep democratic forms of government down there, we have got to help them get and keep jobs. We can't do it but then "say you can't invest American dollars down there."

It is simplistic to say we need to help them build infrastructure. That is true. We would like to do more of it. But that is not the whole answer.

We have got to encourage economic stability if we want political stability in the region. It is in our national interest to do so.

Thank you, Mr. Chairman.

Mr. GUARINI. I think this committee would welcome any kind of a program or plan that we could have in economic strategy for the CBI countries. So far I haven't seen any.

People have tried very hard to look at the short range and the long range view of developing a steady economy in these 22 countries. You say there is a plan forthcoming; I am sure Chairman Gibbons and Chairman Pickle, with Mr. Frenzel and myself, would like to look at what you have come forth with. But we have got to work with what we have got.

I don't want to see us lose jobs in the United States. By the same token, I do want to see us have a sensible policy for developing these countries that are so poor. In so many of these areas they have 40 percent unemployment and the hourly wage is 38 cents. In Haiti you have got $120 a year per capita income. That is no big challenge to the industrial might of the United States.

Let me look at a figure that we have here where it says that the CBI imports were equal to only 1.65 percent of the total U.S. apparel consumption. Furthermore, 83 percent of all apparel imports from the CBERA beneficiaries to the United States come under tariff provision 807, and 68 percent of the content of these imports is United States content. That is more than four times as high as the U.S. content contained in 807 imports from other areas of the world.

Now, the areas of the world that we are really concerned about that have a large quota are certainly not from this particular area. You are talking about five main countries. China, South Korea, Taiwan and Japan account for 50 percent of the total imports.

Here is where we should face our major concern, because this is where we are being devastated, and by unfair trade practices in many cases. So this miniscule amount that we are dealing with is no big challenge to the market of the United States.

Furthermore, I heard Mr. Postal say that in his company, Judy Bond——

Ms. DUBROW. Which ran away from union shops, incidentally.

Mr. GUARINI. We are talking about American workers. Maybe we will get them back into the fold of it. But he said 1,000 American jobs would be lost. We are talking about better trade. We have a $1 billion surplus with these countries, which is different than any place else in the whole world. This is one of the few places that we have a surplus. You are talking about countries where we give them foreign exchange so that they can even buy more in our market. So the more we build up their currency exchange, the more they can buy from us, and the more they give Americans jobs.

So in the long run, what we are talking about is how we can make them a major trading partner instead of being the minor trading partner now.

Ms. DUBROW. May I say this?

You are right about the fact that Asian countries you talked about have imported most to this country. The danger there is they are also establishing firms in the Caribbean Basin because, once their quota is filled, then they find other ways to transship.

That is our problem; we feel very strongly that the Caribbean Basin Initiative bill is a part of the situation, and we suggest it is more than that.

Mr. GUARINI. If that is the problem you are worried about, we can put in procedures that would stop that, because you know that they need to have a certain percent of content. Then you are not talking about the philosophy of help in these countries; you are talking about how we can protect our own market from abuses, unfair abuses.

If these are the things you want to address yourselves to, there are procedures that our committee would work very hard with you on and try to address.

But what I am saying is that it is such a small part of our market and such an important total part of their market, and in the long run we could be all benefiting from this.

It reminds me of a story about a person who put a store on the street and he sees someone else come along with another store of the same product, and he is a little upset about it. Then the next thing you know, he is doing more business than he would have if he had had a single store. If they put five stores on the same street, they find out they are doing more business than they would if there was one store on the street.

We become immersed in the fact that we feel we have a challenge and will lose a little part of the market.

You said the CBI program encourages temporary industry to run away even more when even more profitable opportunities arise. I understand what you mean by that, but it doesn't really work out that way.

When I was in Puerto Rico, I saw it work out just the opposite because of the twin plants, the section 936 concept, because the companies in Puerto Rico were able to use the twin plant monies to go to the other countries, and they can really sustain themselves and make themselves more profitable and healthier by utilizing the cheaper markets in those other countries.

Ms. DUBROW. That hasn't been our experience.

Mr. GUARINI. That has been our experience.

The farmers say this will keep us alive, so we can utilize all these parts of our trade laws to our benefit, to keep more healthy and sustain our companies.

When you say it is straining the workers and shutting the doors, et cetera, you are making a statement that doesn't take into consideration the twin plant concept. If you look at the four corners, we are really making more healthy the Puerto Rican company that is advantaging itself by a twin plant operation.

Ms. DUBROW. First of all, let me point out that I am trying to contain my arguments to the industry I know best: textile and apparel.

Mr. GUARINI. We are talking about economics now, basically.

Ms. DUBROW. Yes.

The point is, in Puerto Rico they only use about $50 million for their twin plants; not very much.

I think you have to recognize that, while you say it is just a miniscule amount, I point out to you that in 1983 the percentage was 4.5 percent and in 1987 it had grown to 16 percent. This is the kind of thing that we are concerned with.

What we are saying is that before there is a rush to extend the Caribbean Basin Initiative for 12 years, before there is a decision to work out what needs to be done, it would be wise to look at the whole situation.

We are concerned with developing less-developed countries. One of the reasons we have our textile and apparel trade act of 1987 is to say to this administration that you can make the decision from what country you will take the level of imports to give to another country. We are perfectly willing to go into that.

We are saying you have a right to decide how much you will give to the Caribbean basin nations as opposed to how much you are going to give to the countries in the Far East or to the European Community. We feel that is a much sounder way to do it, because we would like to see the Caribbean Basin developed; no question of it.

Mr. GUARINI. You know, we are working for the same purpose and in the same direction with the same objections. I know that there is a very small amount, and what we intended to do was put a cap on that amount so it wouldn't go beyond a certain growth rate.

We are giving them a little edge so we don't have to worry about transshipment or really big problems.

We are asking everybody to just give a little bit—the sugar people a little bit, the ethanol people a little bit, the textile people a small amount, so that we end up with having a program that is workable.

If we are going to attack anybody, let's go after Japan, Taiwan and all the big ones. And that leaves people that are really so important to us for a sense of national security, and still so small and so insignificant to our trade picture.

Ms. **Dubrow**. When do you want to work out that plan, Congressman Guarini?

It would seem to me you would also like to look into what these corporations are going to be paying these workers in terms of wages, what they are going to do in terms of overtime and working conditions.

Mr. **Guarini**. I agree.

Ms. **Dubrow**. If you look at the program now, those people are being abused. They are being exploited beyond what any of us can imagine. I think, in looking into this legislation, those are some of the things that ought to be considered.

We don't want to extend sweatshops to the Caribbean Basin. We would like to pay them a decent wage. I am not suggesting the minimum wage we have in the United States.

Mr. **Guarini**. I agree with you about that.

When you use a lot of statistics and say this is 176 percent more than it was last year, you must remember that when you start with such a small amount, it is very easy to make the statistics look like they are enormous, whereas in truth you are down to a small amount of products.

Ms. **Dubrow**. Two and a half million brassieres being imported from Jamaica——

Mr. **Guarini**. That is more than I can conceive.

Ms. **Dubrow**. That is exactly right. That is why I say it.

This is the kind of thing that we have to work on. So there is a problem, and all I ask is that before there is a definite decision, perhaps it would be a good idea to give us a chance to confer with the members of the committee, with the AFL-CIO and other groups that want very much to cooperate.

I want you to understand, we want to be friends of the Caribbean Basin nations, so we would like to cooperate in any way we can.

Mr. **Guarini**. I know in many ways you help in your resource, your experience. If there are any thoughts you have on any provisions in the CBI II that are doable, please give us the benefit of your thoughts.

Thank you.

Ms. **Dubrow**. Thank you.

Mr. **Frenzel**. Mr. Chairman, I would thank the witnesses for their testimony.

Chairman **Gibbons**. Thank you all very much.

Ms. **Dubrow**. Thank you, Mr. Chairman.

I hope you feel better.

Chairman **Gibbons**. Well, thank you.

The Caribbean Basin Business Promotion Council—Mr. Harvey Koch has submitted a statement. He cannot be present. Without objection, we will put it in the record.

The Development Group for Alternative Policies, Mr. Atherton Martin, the coordinator of the program; the Florida Fruit & Vegetable Association, Jeffrey Gargiulo, president.

Mr. Martin, we will let you go first.

Mr. **Martin**. Thank you very much, Mr. Chairman.

STATEMENT OF ATHERTON MARTIN, COORDINATOR FOR THE CARIBBEAN PROGRAM, DEVELOPMENT GROUP FOR ALTERNATIVE POLICIES, INC.

Mr. MARTIN. My name is Atherton Martin from Dominica and the Caribbean. We have submitted a full text. I will be summarizing.

The views I will be sharing, Mr. Chairman, are the views essentially of a wide cross-section of people from the Caribbean and whom I personally have worked in cooperation with for several years. These include the voices of farmers, workers, women and others. These are the voices that have not been directly heard from in the formulation of CBI, but as a result of a process of consultation begun only last year, there has been an opportunity for some of these voices to be heard. At the most recent of these consultations, we had one of your committee members, Mr. Crane, along with the chairman, Dante Fascell, who was able to share in the discussions with these people.

I wish to tell you, Mr. Chairman, there is essentially broad support for your efforts in strengthening the economic relations between the United States and the Caribbean. I must say there continues to be strong concern that the debate appears to be in a very limited way constrained by an attempt to define the difference between a free trade approach and a protectionist approach, of course attended by concerns of stability and security, as has been heard here this afternoon.

I want to share with you, Mr. Chairman, what essentially is the development approach that we in the Caribbean conceive to be appropriate and which would be responsive to needs in the short term, but also some of the long-term concerns that need to be addressed if CBI or any other such program is to be successful.

I would like to share with you a number of the benchmarks for such a program. This approach to long-term development would include the following five concerns: one, programs that support economic diversification within the region; programs that would encourage links within the locality, as has been mentioned by one or two witnesses; three, programs that would make use of existing regional institutions that could make your job much easier in terms of sharing the expertise and the documents and plans developed over the years; four, preference definitely being given in a situation like the Caribbean to smaller, medium-sized producers who comprise the bulk of the private sector; and, finally, the fifth criteria that would characterize a long-term development approach would be one that would take advantage of measures that would ensure that benefits accrued from increased trade in the United States got shared equitably throughout those communities, thereby addressing the long-term development needs for improved standards of living.

I would like to submit four specific proposals that I think would address the hearing's concerns this afternoon. These are proposals that would address four areas: regionalism, workers' rights, product eligibility and trade information.

As far as regionalism is concerned, we would like to suggest that there is broad support in the region for modification of the CBI to affect the following: one, an agreement that can have the Caribbean Community Secretariat act as a representative in negotiating terms of trade with the United States. In support of that proposal, Mr. Chairman, I would like to suggest to you that, as Congressman Guarini asked, is there a long-term plan we could be looking at?

I want to suggest there are several detailed, long-term development plans which are current and available from the Caribbean Community Secretary.

One of them is a regional food and nutrition program which encompasses an attempt to integrate foreign assistance with local expertise in making certain of long-term, food self-sufficiency in the region.

I would say that communication between your committee and ourselves would make available detailed information that would be helpful to you as you proceed in this legislative exercise.

On the question of workers' rights, I would like to suggest, as has already been suggested, that there be a requirement that in designating a beneficiary company, attention be paid to whether such a country has taken or is taking steps to afford to workers in that country, and in designated zones within that country, internationally recognized workers' rights as defined in section 502–A4 of the Trade Act of 1974.

This is a matter of grave concern because, in a very real way, when such conditions arise and are not attended to, it is the workers in America as much as the workers in the Caribbean who suffer.

And the question of unfair competition has been raised. From the Caribbean standpoint, there is the reality of the temporary nature of employment and the very hard and unacceptable conditions under which many of these workers have to operate.

There are several documentary reports on those commissions. I have an ILO working paper No. 42 which reports on employment conditions in those zones in the Caribbean. I am sure that if there are people in your community interested in understanding how to overcome these problems, this document would provide useful information.

On the question of product eligibility, the third area of proposals we would like to make to your committee, sir,—there are five components to what we would like to suggest. One has to do with local content; the other has to do with workers' rights; the third has to do with the use of critical resources; and the fourth has to do with environmental protection. That is four, instead of five, subsets in that proposal.

I would like to put it this way, Mr. Chairman. The phasing out of U.S. tariff barriers on all Caribbean products is something we want to see, especially when these products meet eligibility requirements supporting sustainable development in the region.

With respect to local content, we would like to suggest there is broad, though not unanimous, feeling in the region on the part of this proposal, which is to require there be a phased increase in the minimum level of local content for eligible products, starting with the current level of 35 percent and rising to 50 percent by 1994. This is one way in which, Mr. Chairman, we feel it possible to ensure the kind of backward economic linkages between the export processing zones and the local economy that could increasingly be providing raw material and spreading the effects of job creation that I understand you seem to be seeking.

Also attending that matter is that we feel and we propose that the value and amount of U.S. materials that may be considered as local content should be frozen at the present levels by H.R. 3101 until 1994 and thereafter reduced to zero probably by 1999. This provides the kind of incentive for an increased incorporation and integration of the economies of the region in a way that outlasts any 12-year plan, and insures long-term stability of the region, which I understand is of major concern to your committee.

There is a question of workers' rights already alluded to; I will not go into that.

Certainly there is the need to ensure that increased production for export does not destroy these.

The tropical countries—and I need not tell you exactly what it is like—effluent from factories is dumped in all the rivers and streams.

Finally under this heading I would like to suggest the question of environmental protection as alluded to, meaning there should be no negative impact on the environment as a result of producing for export.

The fourth specific area of proposal I would submit for your consideration on this bill is the question of trade information. It is something often overlooked.

We have heard repeatedly from exporters and processors in the region claiming they don't understand U.S. regulations, whether it be Customs or USDA. Some mechanism, we feel, is to be incorporated into your program to ensure that relative and timely information is available that will allow the exporters to take advantage of these kinds of programs you are putting in place.

There are a number of additional recommendations in my testimony. These have more to do with the jurisdiction of other committees and I will not go into them at this time.

In conclusion, sir, I would like to say that the economies of the region are open, fragile and certainly vulnerable to the vagaries of international trade. What is clearly needed is a new balance, an approach that reduces our dependence on production for export, particularly those exports that do not generate the backward linkages to the rest of the economy, the only sure way to long-term development.

An approach is needed that reduces our dependence on imports of technology, raw materials and expertise. An approach is needed that promotes, instead, opportunity for building self-reliant, self-sustaining economies with dignity for many of the workers in the free trade zones.

This new approach must also be based on a recognition that countries like ours cannot overcome debt or underdevelopment while we have imported $1 billion U.S. dollars worth of food annually.

Support for this approach, I stress to the subcommittee, sir, should be the focus of the CBI. As you consider an extension of the program, I can't make it too clear that simply more of the same is not going to work; in fact, it will further exacerbate the economic problems in the Caribbean, and we and many others will be back before you in another 5 years addressing the same problems.

The cause of the problems is not U.S. protectionism, but rather a program that makes us continually vulnerable to whatever economic or political circumstances might stimulate the protection and sentiments in this country. It kept us from relying on ourselves.

What we need, sir, from you and what the CBI should be designed to do is to provide support to help us through a period of transition, to a fundamentally different approach to economic development.

Yes, we want a greater access to your markets, just as you have gained greater access to ours. We want to do so from a position of strength, from a position of greater self-reliance. We need your help to enable us in the next few years to convert our use of land so that we can feed all our people, process our raw materials, so we in the Caribbean gain fully from our production and make links among all sectors of all economies.

We need a trade agreement with the United States that enables us to sell in your markets goods manufactured with Caribbean materials by Caribbean firms and Caribbean workers with the same rights and working conditions enjoyed by U.S. workers.

Mr. Chairman, we need a commitment from you to negotiate a trade with us as a region and in the process to support our efforts to promote trade among the countries of the region. To do this, programs under CBI must be planned and implemented in collaboration with established regional institutions.

CBI designed and implemented with this in mind would assist the Caribbean in making the transition from an aid-dependent region to an area with self-confident, capable people to pursue their own development.

Thank you very much for the opportunity to make this statement to your committee.

Chairman GIBBONS. Thank you. You did a very good job.

[The statement of Mr. Martin follows:]

STATEMENT BY ATHERTON MARTIN
THE DEVELOPMENT GROUP FOR ALTERNATIVE POLICIES, INC.
BEFORE THE HOUSE SUBCOMMITTEE ON TRADE
OF THE COMMITTEE ON WAYS AND MEANS
ON H.R. 3101,
THE CARIBBEAN BASIN ECONOMIC RECOVERY EXPANSION ACT OF 1987
28 MARCH 1988

Mr. Chairman, I am pleased to present testimony to your Subcommittee on H.R. 3101 and the Caribbean Basin Initiative. I am myself Caribbean, from the island of Dominica, where I have served as Minister of Agriculture. I have also worked extensively at the grassroots level with a number of Caribbean non-governmental development organizations.

The observations and suggestions contained in my statement represent the views of The Development Group for Alternative Policies (The Development GAP), where I am currently employed as Program Coordinator for the Caribbean. In addition, the statement reflects the views and concerns of several important sectors and organizations in the region, most of which were not consulted during the formulation of the CBI and the Caribbean Basin Economic Recovery Act (CBERA). It is my hope that, as a result of The Development GAP's sustained consultations in the region over the past five years, these comments will contribute to your efforts at improving the CBI.

The most significant of these consultations on the CBI to date were initiated in May 1987 when the Chairman of the Subcommittee on Western Hemisphere Affairs, Representative George W. Crockett, Jr., invited The Development GAP to arrange a comprehensive review of the CBI. This initiative was taken in response to the increasing recognition, both in the Caribbean and in the United States, that the CBI was proving inadequate to address the deteriorating economic situation in the region. It was determined that to be meaningful this review should incorporate the Caribbean people themselves, beyond those in government and the private sector normally consulted on this issue.

To do this The Development GAP organized a Congressional Study Mission and Symposium in Barbados on 18-19 September 1987. This allowed a six-member delegation from the sponsoring subcommittees of the House Foreign Affairs Committee -- Western Hemisphere Affairs and International Economic Policy and Trade --to hear directly from representatives of farmers, organized labor, the churches, small manufacturers, women, regional organizations, governments and the private sector.

The symposium was a unique and remarkably successful exercise, reflecting, as it did, a wide range of views, including for the first time in the process of policy formulation those of the common people of the Caribbean. The discussions yielded concrete recommendations for improving the CBI and defined a new approach to foreign assistance designed to promote greater self-reliance and sustainable development in the region. The recommendations pertaining to aid have since been incorporated in a draft foreign assistance bill entitled, The Caribbean Community Development Assistance Act of 1988.

Those suggestions pertaining to trade and the CBI legislation, the concerns of your Committee, comprised the policy proposals considered at a second Congressional Consultation held in Barbados last month. Mr. Crockett was accompanied by five other House Members, including, on this occasion, the Chairman of the House Foreign Affairs Committee, Rep. Dante B. Fascell and Rep. Philip M. Crane, the ranking minority member of your

Subcommittee. As in September, these consultations benefited from the participation of representatives from a broad range of economic and social sectors in the Caribbean. The discussions were focused, insightful and practical and addressed many of the difficult issues of trade that are central to these hearings.

This process of consultation with the people of the region on U.S. policy actually began in December 1982, when The Development GAP convened a conference in Jamaica, bringing together representatives of non-governmental organizations from the Caribbean and Central America to analyze the Caribbean Basin Initiative. The conference participants projected that the CBI, then in proposal form, would have a negative, if any, impact on the region's poor and on the region's economies, in general. The following year, The Development GAP began to monitor the CBI and its impact, and the trends identified after two years of CBI implementation confirmed the prognosis made at the 1982 conference. In 1986, we helped organize a Congressional staff visit to the Caribbean and returned to the region to again consult with non-governmental leaders to gain more insights regarding the CBI's shortcomings and the reasons for its failure, as well as inputs that would help us refine the alternative policy proposals that we had previously presented to policymakers.

Overview

As is stated in the press release announcing your Subcommittee's hearings at the end of last year, "... the fundamental purpose of H.R. 3101 is to improve the effectiveness of the CBI program in order...to build confidence in the region, create business certainty, and provide a long-term investment climate which will lead to economic prosperity and political stability in the region..."

The trade policy of the United States toward the region, like its aid program, should be designed to have a positive impact upon the poorest people of the Caribbean and Central America and thus help foster the widespread prosperity and stability that is desired. Unfortunately, the debate in this country on trade policy has been cast as a choice between free trade and protectionism, while there is a need to be more innovative and to create a more just trading system that actually helps rather than hurts the poor. This calls for the placement of different conditions and restrictions on trade than are usually established.

In this regard, the participants at the two Congressional Caribbean consultations called for a restructuring of economic relations between the United States and the Caribbean and for an approach that will help us break out of the confines of the free-trade zone model that the CBI has promulgated throughout the region. Enterprises operating in these zones offer painful evidence of the problems created by a model of development that focuses too narrowly on increased trade. These shortcomings include: 1) the limited use of local raw materials available and the consequent lack of significant linkages between exports and the rest of the economy; 2) the low wages and sub-standard conditions for workers, most of whom are women, associated with enterprises operating in these zones; and 3) restrictions on trade union activity in the zones, which allow conditions to prevail that threaten U.S. workers, as well as the dignity and well-being of their Caribbean counterparts.

Among the ways that the interests of marginalized populations can best be served is through the diversification and integration of economic activity, which in turn can be stimulated by a U.S.

trade policy that gives preference to the goods of small- and medium-sized indigenous producers. Among the many people and organizations that we have consulted in the region, there has been virtual unanimity that the CBI's effectiveness has been severely limited by the incorrect assumption that an emphasis on export production, without strong links with local economies, can yield self-sustaining growth and a broad sharing of development benefits.

More importantly, perhaps, encouragement should be given to production that increases the degree of local food self-sufficiency and protects the well-being of workers and the environment. At the same time, long-term improvement in the region's balance of payments will require a U.S. commitment to provide a stable market and to take steps toward the establishment of an effective commodity export earnings stabilization mechanism.

The specific measures that we propose be taken by the United States and in the Caribbean to improve and strengthen the trade provisions of the CBI are drawn, as mentioned earlier, from the perspectives and recommendations of representatives of a broad range of sectors in the region. They, in turn, are based upon the following set of six development principles:

1. self-determination -- the shaping of Caribbean development models inside, rather than outside, the region;
2. participation -- the broad-based involvement of Caribbean people in the definition and implementation of those development strategies;
3. self-reliance -- the building of local structures and capacities that would enable the Caribbean to reduce its dependencies on goods, resources, and assistance from outside the region;
4. regionalism -- the fostering of cooperation, rather than competition, among the countries of the region and the strengthening of regional organizations;
5. equity -- the equitable distribution of the opportunities, resources, burdens, and benefits of development throughout Caribbean societies; and
6. sustainability -- the adoption of modes of development grounded in a secure and healthy resource base, local human capacity, and stable sets of economic relations.

Proposals for Modification of CBI Trade Provisions

To help achieve the type of development reflected in these principles, there is broad support in the region for the modification of the CBI to effect the following actions:

° **Agreement that CARICOM act as the representative authority for the Commonwealth Caribbean in negotiating terms of trade with the United States.** Regular ongoing consultation should be institutionalized between the CARICOM Secretariat and the appropriate U.S. institutions to monitor, evaluate and report on the social and economic performance of member states and the impact of the CBI on their respective economies. These bodies should jointly receive and consider proposals for modifying the Initiative.

Non-governmental organizations with a presence at the grassroots level should play a central role in ensuring that this consultative mechanism remains responsive to the development needs of the poor. To this end, as is now evolving in the dialogue between the World Bank and the international NGO community, U.S. government institutions dealing with matters of trade, aid and investment should commence dialogue with Caribbean NGOs through CARICOM or other appropriate regional mechanisms.

° **Consultation with the CARICOM Secretariat by the United States International Trade Commission, the Departments of Commerce and Agriculture, the U.S. Customs Service and other institutions advising the President on matters of trade before the President exercises his right to terminate trade preferences** for goods produced in and exported from the Commonwealth Caribbean. This would ensure that the United States benefits from views from the region in determining the validity of petitions for exclusion from the U.S. market and that the interests of the exporter(s) directly affected by the petition and the broader trade concerns of CARICOM are taken into account. Yet greater stability in trade would be ensured by the promulgation of a multi-year, multilateral trade agreement among the United States and the countries of the Caribbean.

° **Requirement that in designating a beneficiary country the President determine whether such a country has taken or is taking steps to afford to workers in that country (and in designated zones within that country) internationally recognised workers' rights** as defined in Section 502 (a)(4) of the Trade Act of 1974. The Act defines these rights as: the right to association; the right to organize and bargain collectively; a prohibition on the use of any form of forced or compulsory labor; a minimum age for the employment of children; and acceptable conditions of work with respect to minimum wages, hours of work, and occupational safety and health. This proposed change in CBERA would amend Section 212(b) and 212(c).

° **The phasing out of U.S. tariff barriers on all Caribbean products meeting eligibility requirements geared toward supporting equitable and sustainable development in the region.** With respect to the specific eligibility criteria, we propose the following:

1. Local content. With reference to Section 3 of H.R. 3101, which would amend Section 213(a)(1) of the Caribbean Basin Economic Recovery Act (CBERA) as it relates to the local content of products meeting entry eligibility requirements, it is proposed that this section be amended to require a phased increase in the minimum level of local content for eligible products, starting with the current level of 35 percent and rising to 50 percent by 1994. It is further proposed that the value and amount of U.S. materials that may be considered as local content be frozen at the levels proposed by H.R. 3101 until 1994 and thereafter reduced to zero by 1999.

2. Workers' rights. The duty-free treatment provided under Section 213 of CBERA should only apply to goods produced under working conditions that afford workers internationally recognized workers' rights.

3. Use of critical resources. Increasing production of goods for export should not require the expanded use of critical resources, particularly land, essential to meeting the food needs of the local population. In monitoring the operation of the stable food production plan in each beneficiary country, as described in Section 213(c)(2)(C) of CBERA, appropriate agencies of the U.S. government should be required to consult regularly with governmental and non-governmental organizations representing affected local populations and to respond, in the form of field investigations, to petitions by these populations and organizations that indicate that land is being diverted from food production. Where groups of countries have established recognized regional agencies with competence in planning and monitoring food production, as in the case of CARICOM and the OECS, such agencies should be consulted and involved in the process.

4. Environmental protection. Production of goods eligible for entry into the U.S. market should not result in a net negative impact on the natural environment. The consultative process described in point 3 above should be implemented to ensure compliance with this provision.

o **The establishment of a system of information sharing through which Caribbean exporters can understand and stay current with the regulations of the U.S. Department of Agriculture, the U.S. Customs Service and other agencies of the U.S. government relating to the entry of Caribbean goods into the U.S. market.** To this end, it is proposed that the Committee authorize the U.S. Customs Service to:

1. prepare and make readily available specific and explicit information regarding the classification and standards of products relevant to their entry into the United States;
2. work closely with the trade division of the CARICOM Secretariat in conducting quarterly seminars for exporters from beneficiary countries on the application of these regulations to eligible exports;
3. promptly circulate changes in the regulations to the CARICOM Secretariat for onward transmission to exporters;
4. consult with CARICOM during the formulation of rules of origin and other entry regulations for products from beneficiary countries entering the United States and in the monitoring of the impact of these rules on trade; and
5. work closely with the relevant officials of CARICOM in resolving trade difficulties arising as a result of faulty interpretation and application of these regulations by exporters or by officials of the USDA or the U.S. Customs Service.

Additional Recommendations

For the CBI to be comprehensively strengthened and for H.R. 3101 to have the desired impact, changes must also be made in the non-trade aspects of the program. It is the view of The Development GAP and that of many people with whom we have consulted in the region that the United States, in its economic relations with the Caribbean, should:

1. **provide support for a permanent institutional mechanism for U.S.-Caribbean consultation** on U.S. economic assistance, investment, and trade in the region;
2. **support efforts to involve Caribbean non-governmental organizations in all aspects of regional economic activity,** from planning to implementation, evaluation, and resource mobilization, thereby involving these organizations in engendering broad-based, self-sustaining development and new democratic structures that lead to political stability and economic prosperity with equity for the region;
3. **ensure that resources needed to expand production become available to small- and medium-sized Caribbean enterprises** in the agricultural, manufacturing and service sectors so as to foster domestic economic diversification and integration and equalize competition with foreign firms that have their financial and marketing infrastructure and contacts already in place;
4. **support training** in industrial and managerial skills, administration, finance, science and technology designed to meet national and regional labor power needs;

5. **assist in the strengthening of linkages and economic integration** among sectors and the economies of the region; e.g., ensuring that tourism creates demand for local agricultural products, arts and crafts, construction, entertainment and other local goods and services;

6. **support the rationalisation and coordination of investment strategies on a regional basis** to reduce the negative effects of competition among small island economies;

7. **provide support for the expansion of Caribbean intra-regional trade** so as to help achieve greater regional self-reliance, larger surpluses for extra-regional export, and an enhanced regional capacity to compete in international markets;

8. **finance improvements in transportation and communications services** in the areas of shipping and air transport, particularly by strengthening existing regional carriers such as the West Indies Shipping Company (WISCO) and Leeward Islands Air Transport (LIAT) -- support to privately owned services should be coordinated with support to these regional carriers; and

9. **make effective use of existing regional organisations as channels for trade and development assistance** instead of creating new institutions such as the High Impact Agricultural Marketing Program (HIAMP), which duplicates the mandate and work of the Caribbean Food Corporation (CFC).

Many of these recommendations addressing the non-trade components of U.S.-Caribbean economic relations have already been proposed by Mr. Crockett in draft legislation entitled, The Caribbean Community Development Assistance Act of 1988.

Conclusions

The economies of the region are open, fragile and certainly vulnerable to the vagaries of international trade. Our vulnerability in the Caribbean is most evident in the growing dependency on export markets, many of which are contracting as a result of fluctuating currency values, reduced consumer demand, quotas and other non-tariff restrictions. At the same time, we are requested, and now required by the CBI, to keep our domestic markets open to imports from countries that are buying less from us each day.

What is clearly needed is a new paradigm of balanced growth: an approach that reduces our dependence on production for export, particularly those exports that do not generate the backward linkages to the rest of the local economy; an approach that reduces our dependence on imports of technology, raw materials and expertise; an approach that promotes, instead, opportunities for building self-reliant, self-sustaining economies with the dignity now denied our workers in the free-trade zones. This new approach must also be based on the recognition that countries like those of the Commonwealth Caribbean cannot export their way out of debt and underdevelopment while importing $1 billion worth of food annually and devoting land, labor and capital to production of export products for sale at prices that often fall below the production cost.

Support of this approach, I stress to the Subcommittee, should be the focus of the CBI. As you consider an extension of the program, I cannot make it too clear that simply more of the same is not going to work. In fact, it will further exacerbate our economic problems in the Caribbean, and we and others will be back before you in another five years addressing the same problems. The cause of our problems is not U.S. protectionism, but rather a program that makes us continually vulnerable to whatever economic or political circumstances might stimulate protectionist sentiments in this country. It has kept us from relying on ourselves, on our own resources and on our own resourcefulness to solve our own problems.

What we do need from you and what the CBI should be designed to provide is support to help us through a period of transition to a fundamentally different approach to economic development. Yes, we want greater access to your markets, just as you have gained greater access to ours. But we want to do so from a position of strength, from a position of greater self-reliance. We need your help to enable us in the next few years to convert our use of land so that we can feed our people, to process our raw materials so that we in the Caribbean gain fully from our production, and to make links among all sectors of our economies. We need a trade agreement with the United States that enables us to sell in your markets goods manufactured with Caribbean materials by Caribbean firms and by Caribbean workers with the same rights and working conditions enjoyed by U.S. workers. We need a commitment from you to negotiate and trade with us as a region and, in the process, support our efforts to promote trade among the countries of the region. To do this, programs under the CBI must be planned and implemented in collaboration with established regional institutions. A CBI designed and implemented with this in mind would assist the Caribbean in making the transition from an aid-dependent region to an area where self-confident, capable people pursue their own development.

Thank you for this opportunity to share with the Subcommittee views on U.S. economic policy in the Caribbean that reflect a growing consensus among representatives of a broad range of sectors throughout the region.

Chairman **Gibbons**. Now the president of the Florida Fruit & Vegetable Association. Go right ahead.

STATEMENT OF JEFFREY GARGIULO, PRESIDENT, FLORIDA FRUIT & VEGETABLE ASSOCIATION

Mr. **Gargiulo**. I appreciate the opportunity to be here today, Mr. Chairman. My name is Jeffrey Gargiulo. I am president of the Florida Fruit & Vegetable Association, president of Family Companies based in Naples, FL. We grow tomatoes in Naples and Palmetto, FL, and Quincy, FL, and in Puerto Rico. We also grow strawberries and raise berries in California and we import fruit from Chile.

I believe you have our statement from the Fruit & Vegetable Association. If you do, I would appreciate including it in the record and I will make a few brief comments.

Chairman **Gibbons**. Go ahead.

Mr. **Gargiulo**. I would like to say that I wear two hats—one that of being a grower, and the perception of the CBI from the Florida growers is generally horrifying. Most Florida growers up and down the state, as you probably know, are having to deal with immigration problems, land use problems, pesticide problems, water problems and endangered species problems, and you tell them the U.S. Government is getting ready to send $2 billion down to the Caribbean to produce fruits and vegetables and tropical fruits to sell to their customers, they sort of say, "What is going on here? What is the Government going to do to me now?"

That is a popular perception. You don't have to go very far in all the coffee shops up and down the state to find that is what most growers in our State perceive. What the true facts are we don't know, because we do not get much information on how much money specifically has been spent in the Caribbean in agriculture.

My second hat is as an importer and producer in the Caribbean. Our company has had first-hand experience importing products. I have seen a lot of failed products in the Caribbean and continue to see them. Ourselves, we have completed a project in Puerto Rico, which we recognize is not a CBI country, but it has been mentioned as an example today frequently. I bring it up because I can tell you that, being a commonwealth, it has a better infrastructure than most countries, more advanced shipping, et cetera, and it was the most difficult experience we have ever had trying to do anything in agriculture ever. We are now at our second year producing tomatoes there and I think it is important for this committee and other people to understand that when you start spending dollars in the Caribbean to think you are going to produce products to get the job done is an absolute nightmare. I think that to do this and to think it is a simple ordeal is being slighted.

The Fruit and Vegetable Association is opposed to CBI II. We did not oppose CBI I. We do it for several reasons. A lot of it is in the prepared text, but one thing that we are very concerned about obviously is a lot of money going into subsidizing crops; and, as you know, fruit and vegetable crops are not subsidized, and to compete on that basis makes it difficult.

My own feeling is if fruits and vegetables should be produced in the Caribbean, they would already be produced without any kind of CBI program, if it was a good deal.

I think U.S. companies for years have been going into the Caribbean and South America, in bananas and in coffee and other products, because they were a good deal. They needed the products. We needed the products. That was the best place to grow them.

Chile is a good example of a country able to do very well. They export $500 million worth of produce a year to the U.S.A. without government subsidies, CBI programs.

If it is a good deal, we would already be there. We don't need the CBI to do that. We are very clever producers. We have very good technology and research. We don't need CBI to go down to these countries to produce fruits and vegetables. We would already be doing it if we thought that was the place to be.

I think that in the final analysis the bottom line for us as Florida producers, we do not want the U.S.A. to be subsidizing and funding projects in the Caribbean that will be competing with us. If they want to compete, they should do it on a fair basis like everybody else.

Thank you.

Chairman GIBBONS. Thank you.

[The statement and attachment of Mr. Gargiulo follows:]

TESTIMONY OF FLORIDA FRUIT & VEGETABLE ASSOCIATION

Summary of Position

The Florida Fruit & Vegetable Association (FFVA or the Association) opposes the passage of the Caribbean Basin Economic Recovery Act (H.R. 3101 or "CBI II"). There are several reasons for this position.

First, it is premature to amend a statute which has almost eight (8) full years remaining. To add an additional twelve (12) years onto the remaining eight years is unprecedented and unwise. Second, and more importantly, notwithstanding the rhetoric to the contrary, it is becoming increasingly clear that the CBI is not working as intended and has not achieved any of the goals set forth by Congress in CBI I. In addition, since 1983 in excess of $2 billion in U.S. foreign assistance has been provided to the CBI countries without any corresponding success. Indeed, many of beneficiary countries have complained that the CBI program is not working.

Congress must not in this legislation perpetuate the expectation that CBI II will solve the social, economic, and political expectations of the region. As Ambassador Yeutter has noted, the most important factor in the progress of the Region is "the ability of the CBI's beneficiaries to create an attractive political and economic environment that will allow the private sector to prosper." CBI I so far has failed in this regard and CBI II offers no better prospect.

FFVA objects to the U.S. government spending billions of dollars in the CBI program, part of which monies have been used to create unfair competition to U.S. agricultural and tropical fruit growers. Certainly, Congress should not allow our own government to be a partner in an unfair trade practice against domestic producers.

Florida Fruit & Vegetable Association (FFVA)

FFVA is a private, non-profit agricultural cooperative of growers, shippers and processors of vegetables, citrus, sugarcane and tropical fruits. FFVA was organized under the laws of the State of Florida to provide a means of dealing with public and private agencies to aid in the recognition and solution of industry problems.

FFVA has a long history of international trade involvement on behalf of its members and is active today in many U.S. agricultural trade policy matters.

H.R. 3101

This bill is a direct result of the complaints made last year by some of the beneficiary countries to a Congressional fact-finding mission. The "complaints" are found in this Committee's Oversight Subcommittee Report dated May 6, 1987 (Committee Print WMCP: 100-9), which report also contains the Subcommittee's recommendations for improving the CBI. FFVA's comments to the Subcommittee on Oversight are pertinent to this Subcommittee's review of H.R. 3101, and are attached as Exhibit A.

It is interesting to note that this mission and its report were completed after only three years of the CBI program. FFVA believes this is hardly enough time to assess fully the effect of the CBI program and, despite the recommendation to the contrary, there is no basis to extend the program 12 years past the CBI I expiration of 1996.

Generally, FFVA is concerned about the impact of the CBI in Florida's fruit & vegetable growers. We are also concerned about the tremendous amounts of money being spent in the Caribbean, e.g., the U.S. Agency for International Development

(AID) has provided Costa Rica $800 million in economic support funds and food commodities in fiscal year 1987 alone.

Florida's predicament with regard to the impact of the CBI is seen in the following:

> Florida, probably more than any other state, has much to gain and/or lose from the CBI . . . Under the Caribbean Basin Initiative, the foreign competitors for many Florida commodities will likely increase . . . It is this anticipated competition from Caribbean Basin countries that concerns Florida agriculture, especially the state's fruit and vegetable and ornamental horticulture producers. Empirical data from the [University of Florida] studies suggest that increased imports of such products as tomatoes, limes and cut flowers have had an adverse impact on Florida's industries by reducing domestic quantity sold and, thus, their share of the U.S. market. It is, therefore, understandable that the prospect of additional imports stimulated by the CBI is viewed by Florida growers with considerable concern. (Emphasis added.)

Caribbean Basin Initiative: Factors Affecting U.S. Agriculture, A Case Study by James E. Ross, Twenty-Sixth Session 1983-84, Executive Seminar in National and International Affairs, U.S. Department of State, Foreign Service Institute, p. 34.

We are concerned when our government encourages the expansion of fruit and vegetable exports to the United States from the CBI countries which compete directly with domestic producers.

We are concerned about reports that Jamaica diverted 20,000 acres to fruit and vegetable crops for export to the U.S. and AID monies were provided in grants ($1.2 million) and $4.8 million provided in loans at the rate of 2% with a grace period of 9-1/2 years.

We are concerned that AID provided $6.8 million to Belize for exports of winter fruit and vegetables to the United States and AID reports the trend is expected to continue. (HORIZONS, Agency for International Development, Spring 1986, p. 14 ("Horizons").)

We are concerned Costa Rica received $20 million, part of which was used to divert its acreage to export crops including tropical fruits to the U.S. (Horizons, p. 24).

We are concerned that Guatemala is also being pushed to develop for export to the U.S., winter fruit and vegetables and that AID is funding projects to locate U.S. markets for these exports (Horizons, p. 39).

We are concerned about AID's efforts in Panama to stimulate exports to the U.S. of such crops as onions, peppers, melons, and watermelons (Horizons, p. 55).

We are concerned that our government is directing and funding production of winter fruit and vegetables geared specifically to the U.S. market (Horizons, p. 63).

We are concerned when government officials tell us not to worry because imports from the Caribbean are only a small portion of U.S. production, that U.S. demand is increasing and that, in any case, imports of fruits and vegetables do not compete directly with domestic production because they enter when the U.S. is not in production or production is low. We dispute each of the foregoing statements. In addition, even if they were true, it is important to note we are dealing with perishable agricultural commodities where only a slight surge in imports can totally disrupt the market place.

It is important that Congress fulfill its oversight function before it considers expansion of the CBI program. It is important to know broadly if the economic decline in the Region has been reversed by the trade and tax concessions of the CBI program and the infusion of substantial U.S. economic aid. To the extent this question has been answered, it has been answered negatively. This is true from a social, economic or political standpoint. In fact, it is not clear at all that whatever gains are noted could not have been achieved without the CBI program. As you know, prior to the CBI most exports from the CBI countries received duty-free treatment under the Generalized System of Preferences.

There are other significant questions that need to be answered. For example, how many new investment opportunities in the Region have been created since the inception of and because of the CBI program and are they now operating without governmental support? And, do these new business ventures justify the cost to the U.S. government? In 1986, economic assistance to the region totalled $1.2 billion, up 1/3 from 1983.

At one time the Commerce Department noted that 285 new enterprises were started because of the CBI. These new investments reportedly were worth $300 million and would create 35,000 jobs. Unfortunately, when the General Accounting Office (GAO) tried to verify this information, it couldn't. GAO investigated the claims and said it could not find data on the dates that 100 of these businesses were started or expanded their operations, or data on U.S. assistance received by these companies. In addition, GAO found that the Commerce Department did not have addresses for most of the businesses and that some of the businesses characterized by the Commerce Department as a success were inactive.

We respectfully suggest to Congress that the question of CBI I's success must be fully and fairly reviewed before CBI II can be considered.

In addition, we suggest Congress must exercise its oversight function with respect to the monies being spent on CBI projects and related programs. To our knowledge, no one has assessed the collective effectiveness of all of the Federal government's CBI programs. U.S. government efforts and programs are found in the following agencies: Department of Commerce, Agency for International Development, Overseas Private Investment Corporation, Department of Agriculture, Trade and Development Programs, State Department, U.S. Information Agency, Department of Labor, and the Department of Transportation. Each group in each agency claims that it plays a significant role in implementing the CBI. Among other accomplishments, these agencies claim to have built "an improved policy and regulatory environment for business", carried out "projects that promote investment, develop trade opportunities and create a positive context for the establishment and expansion of enterprises." Excerpt from a Statement of the Bureau for Latin America and the Caribbean, Office of Private Sector Activities, presented at the March 1988 meeting of the Department of Commerce's Caribbean Basin Business Promotion Council.

It is important for Congress to assess fairly and completely the Federal government's efforts towards the "success" of the CBI. Glowing statements aside, it is clear to many, that many projects, in particular those involving fruit and vegetable production, were not properly conceived or implemented. One outfit in Jamaica involving winter vegetables incurred losses of $47.7 million in part due to wrong market intelligence.

As part of the CBI plan, our Federal agencies have conducted many, many studies at the cost of many millions of dollars. These studies in many cases are performed by experts, most of whom not surprisingly are U.S. consultants who receive the work on a non-competitive basis. It is fair and necessary for Congress to ask how much money has been spent in this manner and how effective such efforts have been.

Furthermore, it is fair and necessary for Congress to question whether Federal agencies, in implementing the CBI program, should be participating in the development of policy positions on sugar or textiles which may be contrary to Congressional intent. In addition, is it proper under the CBI for a federal agency to assist Costa Rica in its effort to join GATT?

We think the Federal programs must be viewed in light of actual progress made toward economic development and improved living standards in the Caribbean. With regard to economic development, it is questionable at best whether there has been any progress; and, certainly, there has not been enough progress to justify the tremendous investment in U.S. governmental programs and expenditures. As for improved living standards, unfortunately it appears that for some citizens of beneficiary countries they are worse off than when the CBI began. In any case, it is clear that many basic questions have yet to be answered on CBI I.

To proceed with CBI II on the basis of the CBI experience of only 3 years is certainly premature. To proceed with CBI II on the record now before Congress is to ignore the facts and bow to the rhetoric of those who are profiting from a continuation of the CBI.

The fact is that total U.S. imports from designated Caribbean Basin countries and territories decreased substantially (by about $2.7 billion) between 1983 and 1986 and this downward trend has continued into 1987. And, despite all of the money and programs devoted to increasing imports of non-traditional products, they grew only at a disappointing annual rate of 4.3% from 1983 to 1986. However, these imports declined by 4.3% in 1986 and they fell another 4.2% during the first half of 1987. (Report by the U.S. Department of State on The Caribbean Basin Initiative (CBI): Progress To Date, November 1987, pp. 3-4) This is the kind of progress in economic development which calls into question CBI I. This is not the kind of progress which supports a continuation of CBI I much less its expansion in H.R. 3101.

H.R. 3101 Section Analysis

With regard to the "new" Caribbean Basin Initiative Act, the following comments are provided:

SECTION 5. REPORTS BY BENEFICIARY COUNTRIES

This section requires each beneficiary country to report to the President on the progress of the CBI.

We recommend that this section be amended as follows:

1. The report should be provided to Congress in addition to the President and made available to the public.

2. Each beneficiary country should submit a report each year.

3. Each report should include a full description of the assistance received, including the dollar amounts, the purpose(s), use(s) and source(s) of such assistance, the commodities directly and indirectly promoted thereby and the quantity and value of such commodities exported to the United States. In addition, the effect of such U.S. assistance on each beneficiary's economy, food supply, and citizenry should also be addressed.

SECTION 6. TERMINATION OF DUTY-FREE TREATMENT

We object to extending the termination of the Act from 1995 to 2007. There is no basis for such an extension and there is no reason why Congress should extend the original Act when almost eight years remain. This action is premature and any consideration of an extension should be made after the original Act has had a full chance to work.

SECTION 8. CUMULATION INVOLVING BENEFICIARY COUNTRY PRODUCTS UNDER THE COUNTERVAILING DUTY AND ANTIDUMPING LAWS

We strenuously object to this section of the Bill which alters the method of assessing the volume and effect of imports from a beneficiary country under existing countervailing duty and antidumping laws. There is no justification for such an alteration and, more importantly, such a proposal sets an improper and dangerous precedent. Our trade laws should not be altered in response to one industry (cut flowers) in one CBI beneficiary country (Costa Rica).

SECTION 10. SUGAR IMPORTS FROM BENEFICIARY COUNTRIES

We support the position taken by the Florida Sugar Cane League in opposition to this section.

SUMMARY AND CONCLUSION

In 1982, FFVA testified in support of the CBI. FFVA cannot support H.R. 3101. The record is clear that CBI I has not significantly improved the economic or living conditions in the Caribbean Basin.

More importantly, it is clear to us that our government has made a deliberate decision to develop exports to the U.S. of fruits and vegetables which will compete with U.S. producers of these commodities. Most of these growers are in Florida. Our government has hired consultants to do pre-feasability, feasability and U.S. market studies, conducted literally hundreds of seminars around the country in part to promote exports of fruits and vegetables from the Caribbean to the U.S. In addition, as identified above, our government has funded projects in the Caribbean which compete directly with U.S. producers.

FFVA supports the concept of free trade and in the preservation of competition and market forces. FFVA's members have not and do not seek federal financial support for their crops. Therefore, it is unacceptable to us to permit federal funding of offshore/foreign production which already enters the U.S. duty-free, when our government does not contribute to the domestic industry.

Accordingly, we oppose H.R. 3101 because the record fails to support its adoption and because continuation of the program harms and in the future may greatly harm domestic producers.

We are authorized to state that the Florida Tomato Exchange adopts the position taken by the Florida Fruit & Vegetable Association in opposition to H.R. 3101.

cbi testimony:254
03/24/88

EXHIBIT A

STATEMENT OF

FLORIDA FRUIT & VEGETABLE ASSOCIATION
4401 E. COLONIAL DRIVE
ORLANDO, FLORIDA 32814

BEFORE THE

SUBCOMMITTEE ON OVERSIGHT
COMMITTEE ON WAYS AND MEANS
U.S. HOUSE OF REPRESENATTIVES

ON

THE CARIBBEAN BASIN INITIATIVE

John M. Himmelberg, Esquire
Washington Counsel
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March 6, 1986

The Florida Fruit & Vegetable Association (Association or FFVA) welcomes the opportunity to provide comments to the Subcommittee on the impact and effectiveness of the Caribbean Basin Initiative.

FFVA is a private non-profit agricultural cooperative of growers, shippers and processors of vegetables, citrus, sugarcane and tropical fruits. FFVA was organized under the laws of the State of Florida to provide a means of dealing with public and private agencies to aid in the recognition and solution of industry problems.

FFVA has a long history of international trade involvement on behalf of its members and is active today in many U.S. agricultural trade policy matters.

Initially, the Subcommittee should know that FFVA supported the concept of the CBI and, in fact, so testified in the hearings which led to the passage and enactment of the Caribbean Basin Economic Recovery Act (CBERA).

FFVA continues to believe that the CBI can be effective in strengthening the relationship with our Caribbean neighbors by helping in the economic revitalization of the Caribbean Basin. We firmly believe that it is good policy and good business to promote the economic well-being of the Caribbean countries. FFVA, however, was and is concerned about the impact of the CBI on Florida agriculture. Specifically, we are concerned that the direct and indirect aid given to Caribbean countries by our government is promoting economic activity far beyond what a free market would dictate to the detriment of producers in Florida and, in the case where direct artificial competition has been created, producers in the Caribbean and producers in the United States have been harmed.

Florida's predicament with regard to the impact of the CBI can be seen in the following:

> Florida, probably more than any other state, has much to gain and/or lose from the CBI . . . Under the Caribbean Basin Initiative, the foreign competitors for many Florida commodities will likely increase . . . It is this anticipated competition from Caribbean Basin countries that concerns Florida agriculture, especially the state's fruit and vegetable and ornamental horticulture producers. Empirical data from the [University of Florida] studies suggest that increased imports of such products as tomatoes, limes and cut flowers have had an adverse impact on Florida's industries by reducing domestic quantity sold and, thus, their share of the U.S. market. It is, therefore, understandable that the prospect of additional imports stimulated by the CBI is viewed by Florida growers with considerable concern.

Caribbean Basin Initiative: Factors Affecting U.S. Agriculture, A Case Study by James E. Ross, Twenty-Sixth Session 1983-84, Executive Seminar in National and International Affairs, U.S. Department of State, Foreign Service Institute, p. 34.

FFVA is particularly concerned with reports that the U.S. State Department's Agency for International Development (AID) has funded a number of projects in the Caribbean to develop fruit and vegetable production projects which will compete directly with Florida's producers for the U.S. market.

Based on statements made by President Reagan, Trade Ambassador Yeutter, who specifically noted the growth in exports to the U.S. of fruits and vegetables from the Caribbean, and Administration officials before this Subcommittee, more such aid will be sought.

FFVA agrees that before such aid be made, its impact on domestic industries be assessed. In addition, the basis for such aid should be reconsidered principally on the grounds that such aid will lead to direct competition with U.S. producers in the U.S. market with neither party benefiting economically. Such aid should be directed to nontraditional, noncompetitive exports to the U.S. for which there is either unfulfilled demand or demand which can be expanded. If the only way for a Caribbean country's product to be viable is to rely on grants from the U.S. government, then we must question the efficacy of such assistance.

In 1984 AID alone provided close to $600 million in support of the CBI. Since the CBI began, over $2 billion in U.S. government resources have been committed. That's a lot of money. Has this funding promoted economic recovery and stability in the Caribbean countries? *It may be too early to answer this* question. Has this funding harmed Florida agriculture? We think it has and has created, in an artificial and non-market oriented fashion, the potential for great harm to Florida agricultural producers. Even our own Department of Agriculture is encouraging expansion of the Dominican Republic's horticultural exports by recommending "conversion of sugarcane lands to fruit and vegetable production." Foreign Agricultural Circular, Horticultural Products, FHORT 6-85, June 1985, p. 15.

We are concerned that monies are being poured into the Caribbean without regard to their impact on U.S. producers. We think this is wrong. AID recently advised us that its agricultural development strategy is "aimed at broadening the base of agricultural development in the region through promotion of such nontraditional crops as fruits and vegetables." Letter dated February 10, 1986 from Dwight Ink, Assistant Administrator, Bureau for Latin America and the Caribbean to John M. Himmelberg, Washington Counsel, FFVA.

We are concerned about AID monies going to Jamaica for its Crop Diversification Program to divert some 20,000 acres formerly in sugar to winter vegetable production for export to the U.S.

We are concerned about 2% loans for vegetable production facilities which will not have to be repaid for several years after the facility is completed.

We are concerned that AID has new projects scheduled totalling over $77 million for such things as agribusiness promotion (grant $1,800,000, loan $18,000,000), crop diversification/irrigation (grant $10,000,000, loan $5,000,000), high impact agriculture, marketing (grant $40,000,000).

It seems to us that such expenditures have completely failed to take into account their disruptive and harmful effects on the domestic industry. We suggest again at a minimum an impact statement be prepared to see what effect such expenditures have in disrupting the market in the U.S. and the harm to domestic producers of competing products.

We are not unmindful that we may be labeled as protectionist; however, such a charge is unfounded. If U.S. demand for a product can be identified and the quantity, quality and frequency of shipments to U.S. markets can be made from the

Caribbean, then arguably there may be a basis for such funding. However, even in this case, we are compelled to ask the question what is the impact on the domestic industry. If grants of billions of dollars to the Caribbean countries are hurting U.S. producers then we are being subjected to a kind of reverse protectionism, i.e., preserve or increase the U.S. grants to Caribbean countries at whatever the cost to U.S. producers. Certainly, this is not right or fair.

Indeed, some who have testified before this Subcommittee suggest that AID funds be exempted from Gramm-Rudman cuts and that some U.S. health and safety requirements be changed as they are "nothing more than disguised non-tariff barriers." Testimony of Bruce Zagaris and Constantine G. Papavizas, Berliner & Maloney, dated February 5, 1986. And, one commentator suggests that CBI countries be allowed to stabilize prices. Testimony of Stuart K. Tucker, February 25, 1986, p. 11.

FFVA respectfully requests that AID grants, especially those for such things as high impact agriculture, marketing, should be cut notwithstanding the effects of Gramm-Rudman. Moreover, it may be that a significant portion of these monies are not even going to the CBI. For example, we have reviewed a feasibility study (179 pages) paid for in part by an AID grant to the National Food Processors Association with offices here in

Washington. Another such grant we are told is for work being done at one of the universities in New Jersey.

As for U.S. health and safety standards being non-tariff trade barriers, we suggest this is simply not the case. In fact, the opposite is true. The U.S. Department of Agriculture recently withdrew its financial support for the citrus canker eradication program in Florida, while at the same time it increased its support to find an alternate treatment for EDB on mangoes, a principal beneficiary of which is Haiti.

The suggestion that CBI producers who are receiving grants from AID to subsidize their costs be allowed to fix prices is bad policy. Moreover, such a policy would put products from the Caribbean in such a tremendous advantage to U.S. commodities that even allowing for differences in quality U.S. producers would be seriously harmed. We suggest that it would be more appropriate for AID to help CBI producers produce for their own market and that such AID monies for artificially creating competition for Florida's producers be withdrawn.

As Secretary Abrams noted in the prepared statement (at p. 10) before the Subcommittee quoting Vice President Bush, the Administration will "fight any proposal in any form that would inhibit the free flow of trade from the Caribbean." FFVA would not presume to so inhibit trade with the Caribbean. However, the "free flow of trade" is not free; the cost of maintaining and enhancing CBI trade is great, the Administration's request for aid to the CBI region for FY 87 is $1.5 billion. And, the burden of this artificially enhanced trade is falling disproportionately on producers of winter fruits and vegetables in Florida.

FFVA believes it is incumbent on Congress to assure that these enormous sums of money be spent wisely with as little harm as possible to domestic industries. We don't think this has been happening. In fact, FFVA believes it soon may be time to seek a Florida Agricultural Economic Recovery Act as a direct result of the CBI program.

We have not mentioned the fast-track relief embodied in the CBERA mainly because we don't think it is relevant to an assessment of the CBERA since it has not been used. And, in any case, we are not at all certain that such relief will be effective for perishable commodities.

In summary, the Florida Fruit & Vegetable Association is concerned that the gains the U.S. has paid for in the CBI are not made at the expense of Florida's fruit and vegetable producers. Based on the information we have obtained from USDA and AID, we are convinced that substantial benefits are being given outright in the form of grants to CBI countries to produce winter fruits and vegetables for the U.S. market. We think this situation is unwise since producers in the the U.S. and Caribbean will receive severely depressed prices for their commodities. This situation also is unfair since Florida's producers will bear the brunt of this artificially created competition.

At a minimum, all assistance given under the CBI should be reviewed and, in addition to the perceived benefits, the harm to Florida's producers should be assessed. If the harm to Florida is too great, then the assistance should not be given. Moreover, we ask that Congress which appropriates these monies be responsible for making this judgment as we do not think the State Department can be unbiased in making this decision.

Mr. Chairman, as we said at the outset FFVA fully concurs in the objectives of the CBI but we must not let our zeal to help our neighbors overtake our legitimate concerns that such government largess not harm U.S. producers.

We would be pleased to supplement this statement with any information you may need.

Chairman **Gibbons**. You point out that it is very difficult, once you even get access to this market, to get a crop produced. I really think that has probably got as much to do with the conditions as anything else.

These countries are very small and the growing conditions aren't very good, and the growing conditions are coming just a little ahead of our peak season. Therefore, whatever you can do down there in fruit and vegetables is marginal; is that the gist of your testimony?

Mr. **Gargiulo**. I think they could produce fruits and vegetables if they had the funding to continue to lose money doing it. And I don't think they can do it profitably in some of the things they are trying to do right now. We have looked at that. I think the industry has looked at that.

If they can lose money and do it—maybe they can. You will find examples of that throughout the Caribbean.

Chairman **Gibbons**. I don't think the Federal Government plans to put much money in the Caribbean. They certainly haven't put much money in and I doubt they would ever put much money in there.

The only thing this bill does is give them a duty-free access into this market. It does not waive any of the trade or dumping laws we have. It would waive the cumulation provision, but the cumulation provision is something put on 4 years ago, so it has been important in growing flowers in Costa Rica but in not much else that I know of.

I have seen the fruit and vegetables from Chile, and I guess the reason they do so well in this market is that they come from exactly the opposite end of the growing season that we have here. They certainly add a lot to the opportunities that a shopper has in the market. They have excellent fruit and vegetables. I have got a lot of them in the refrigerator right now and they are good.

But I don't see anything like that from the Caribbean and I would assume: one, the growing conditions aren't right; and, two, that when the growing conditions are right, they tend to compete with the better growing conditions in this country. That is the principal problem we have.

I have looked at the soil, the rain and everything else in the Caribbean and that is a terrible handicap to have to overcome down there, plus all the tropical diseases. They must have some that we haven't even heard of in Florida.

So I know why the fruit and vegetable people are afraid of this legislation but I don't think it is going to be as bad for them.

I read the University of Florida report and, while I have a great deal of respect for the University of Florida, I didn't think it was a very good report.

Mr. **Gargiulo**. Can I give you an example?

Chairman **Gibbons**. Sure.

Mr. **Gargiulo**. What I think happened is—and I have seen it already—I don't know anything specific about the funding because I don't think we get that type of information. We, as fruit and vegetable growers, do not know how much, if or what funds have been available from whatever U.S. Government agencies in the Caribbean to grow fruit and vegetables, but I do know there have been projects that have been offered to our company with some very interesting funding and twists and things like that.

You know the tomato business is very important in Florida; it is our largest crop, next to citrus. And you know that tomatoes can be grown in the Caribbean, in several countries there. As a matter of fact, our crop in Puerto Rico, for example, produces very well. Granted, there are soil problems and disease problems, but I think technology can handle all of that. It may be a little more expensive and freight may be difficult, but if the CBI would allow that product to then become competitive in some respects, even if it was only for a period of years until the funds ran out or the program changed or whatever, it could be devastating on the tomato industry in Florida, absolutely devastating.

Chairman **Gibbons**. Someone in the U.S. Government has offered you money to grow crops in the Caribbean?

Mr. **Gargiulo**. As you may or may not know, the first thing that happens when the CBI goes out when the thing came about, there are consultants everywhere, and a lot of consultants were ex-government employees—I won't specifically name them, but there are consultants everywhere and they have conferences, and basically what I have seen these consultants do is have conferences for the most part. But in addition to that, I have had them come to our company and say, we can tell you how to get funds from this agency, from that agency, from that agency, if you are willing to do a CBI project.

The bottom line is you can basically go into one of these countries and do the thing and have no financial risk.

Well, for us to do that—I don't want to fail, and logistically for me to go into a country and to put together a project is extremely difficult. To have the personnel to do it, I mean try to get people that live in some of these places who know what they are doing—what happens, if these projects are available and if this funding is available, companies like ours, who are very reputable and successful in the business, we don't go down there. So what happens is the guy that is half broke goes down there because that is a way for him to keep going, and he is competing with the rest of us.

Mr. **Martin**. Mr. Chairman, may I comment on this point? It is relevant to the whole question of the Caribbean program and appropriate development. You know, it is interesting to hear my friend here from Florida raise the point about how concerned the growers in Florida are, they might be losing their markets to products from the Caribbean, but this is in fact a reality in the Caribbean, which is that we go to the supermarkets and we see most of the food in the shelves and it is coming from the United States. A lot of our farmers can't find markets even locally with their products.

This highlights the dilemma that needs to be addressed by trade. It is not a question of either/or. It is a question of a choice for sustainable development using local resources and giving each and every group of farmers and producers an opportunity to address their local market as a priority.

In fact, if that is done in the Caribbean, the question of sustainability, stability and security becomes a moot one, because then you have more people employed and supplying their local needs.

In fact, Florida growers would have a little less to worry about when they have a local market.

Chairman **Gibbons**. Mr. Gargiulo.

Mr. **Gargiulo**. What do they grow in Dominica, Mr. Martin?

Mr. **Martin**. Bananas, coconuts, yams, sweet potatoes, tannias, dasheen. You name it, we grow it.

Mr. **Gargiulo**. Is that any threat to the Florida market?

Mr. **Martin**. To the U.S. market?

Mr. **Gargiulo**. Yes.

Mr. **Martin**. I don't see it as being a threat to the United States market.

Mr. **Gargiulo**. Do you import fruit and vegetables?

Mr. **Martin**. Into Dominica and the rest of the region—carrots from the United States, grapes. I should tell you that happens while some of these commodities are produced in the region.

Mr. **Gargiulo**. Do you need most of what you grow on your island or do you have much for export?

Mr. **Martin**. These economies are largely agricultural for export. All of the bananas are exported. All the citrus is largely exported. Our food crops are the ones that have suffered the most from the importation market that brings in canned and processed foods while fresh food supplies remain unavailable.

Mr. **Gargiulo**. I have been in the Caribbean for 20 years. I know the Caribbean. I have had a home down there. I know some of those islands import from Venezuela almost all their fruit and vegetables because the climate and the soil and the weather doesn't allow much to be grown on some of these islands.

Mr. **Martin**. That is a very important point because how we see the Caribbean is very important, and how we address the problems.

If we see it as a set of distinct little islands and try to establish little bilateral relations with each one, we have a major problem. That is what was set up 15 years ago to address.

Logistically and geographically we have a natural local regional market. In fact, you have the hotels in Barbados needing to feed tourists importing tomatoes and lettuce from overseas, United States included, while they were grown in Barbados, and they have difficulty selling the local produce to the local market.

Having to do with the technology, it seems to me maybe those areas could be more usefully addressed in terms of supporting that kind of service and infrastructure to enable the enhancement of the local capacity to food sufficiency and eventually develop the expertise that would allow us to, on an equal basis, even compete with your growers in the United States.

Mr. **Gargiulo**. Does this pose any threat to the U.S. markets, in your opinion?

Mr. **Martin**. I can't see that when we are importing $1 billion worth of food a year.

Mr. **Gargiulo**. Thank you.

Chairman **Gibbons**. Bill.

Mr. **Frenzel**. I would like to ask Mr. Martin if he can tell me a little bit more about his organization, the Development Group for Alternative Policies—who is a member of it, where is it located and so on.

Mr. MARTIN. I have here sitting one of the co-directors of the development group, Mr. Steve Hellinger, and a staff member of that organization, Robin Herr.

This is a group that was started about 11 years ago by Steve, his brother and a couple colleagues who had been working in the Peace Corps for some years overseas, saw some of the difficulties that were created by foreign assistance programs overseas and came back and set about developing a policy analysis approach that would allow for the views of the people in those countries that were affected to be heard in policy circles.

We are located here in Washington. A lot of our work is done through the networks that we have set up in the South.

Mr. FRENZEL. Thank you very much.

Mr. Chairman, I have no further questions.

Chairman GIBBONS. All right.

This concludes our hearing for today. We will have future hearings, to be announced by the Chair.

Thank you very much.

[Whereupon, at 4 p.m., the subcommittee adjourned.]

CARIBBEAN BASIN ECONOMIC RECOVERY EXPANSION ACT OF 1987

THURSDAY, SEPTEMBER 15, 1988

House of Representatives,
Committee on Ways and Means,
Subcommittee on Trade,
Washington, DC.

The subcommittee met, pursuant to notice, at 9:35 a.m., in room 2247, Rayburn House Office Building, Hon. Sam M. Gibbons (chairman of the subcommittee) presiding.

[The press release announcing the hearing follows:]

FOR IMMEDIATE RELEASE
FRIDAY, SEPTEMBER 9, 1988

SUBCOMMITTEE ON TRADE #25
COMMITTEE ON WAYS AND MEANS
U.S. HOUSE OF REPRESENTATIVES
1102 LONGWORTH HOUSE OFFICE BLDG.
WASHINGTON, D.C. 20515
TELEPHONE: (202) 225-1721

THE HONORABLE SAM M. GIBBONS (D., FLA.), CHAIRMAN, SUBCOMMITTEE ON TRADE, COMMITTEE ON WAYS AND MEANS, U.S. HOUSE OF REPRESENTATIVES, ANNOUNCES THE CONTINUATION OF PUBLIC HEARINGS ON H.R. 3101, THE CARIBBEAN BASIN ECONOMIC RECOVERY EXPANSION ACT OF 1987

The Honorable Sam M. Gibbons (D., Fla.), Chairman of the Subcommittee on Trade, Committee on Ways and Means, U.S. House of Representatives, today announced that the Subcommittee will continue its public hearings on H.R. 3101, the Caribbean Basin Economic Recovery Expansion Act of 1987, on Thursday, September 15, 1988, in room 2247 Rayburn House Office Building, beginning at 9:00 a.m. These hearings were previously announced in Subcommittee press releases #13 and #18.

Due to the number of witnesses who have already requested to appear, the witnesses for this hearing will be drawn exclusively from those persons who made requests to appear in response to the earlier press releases. All parties who have previously requested to appear will be notified whether or not they have been selected to submit oral testimony. Those persons and organizations not scheduled for an oral appearance are encouraged to submit written statements for the record of the hearings.

WRITTEN STATEMENTS IN LIEU OF PERSONAL APPEARANCE:

Persons submitting a written statement in lieu of a personal appearance should submit six (6) copies of their statement by the close of business Tuesday, September 20, 1988, to Robert J. Leonard, Chief Counsel, Committee on Ways and Means, room 1102 Longworth House Office Building, Washington, D.C. 20515. If those filing a written statement for the record of the printed hearings wish to have their statements distributed to the press and the interested public at the hearings, they may provide 75 additional copies for this purpose to the Subcommittee office, room 1136 Longworth House Office Building, prior to the start of the public hearings.

SEE FORMATTING REQUIREMENTS BELOW:

COMMITTEE ON WAYS AND MEANS FORMATTING REQUIREMENTS FOR PRINTING OF HEARING STATEMENTS, WRITTEN COMMENTS AND EXHIBITS

Each statement presented for printing to the Committee by a witness, any written statement or exhibit submitted for the printed record or any written comments in response to a request for written comments must conform to the guidelines listed below. Any statement or exhibit not in compliance with these guidelines will **not** be printed, but will be maintained in the Committee files for review and use by the Committee.

1. All statements and any accompanying exhibits for printing must be typed in single space on legal-size paper and may not exceed a total of 10 pages.
2. Copies of whole documents submitted as exhibit material will not be accepted for printing. Instead, exhibit material should be referenced and quoted or paraphrased. All exhibit material not meeting these specifications will be maintained in the Committee files for review and use by the Committee.
3. Statements must contain the name and capacity in which the witness will appear or, for written comments, the name and capacity of the person submitting the statement, as well as any clients or persons, or any organization for whom the witness appears or for whom the statement is submitted.
4. A supplemental sheet must accompany each statement listing the name, full address, a telephone number where the witness or the designated representative may be reached and a topical outline or summary of the comments and recommendations in the full statement. This supplemental sheet will not be included in the printed record.

The above restrictions and limitations apply only to material being submitted for printing. Statements and exhibits or supplementary material submitted solely for distribution to the Members, the press and public during the course of a public hearing, may be submitted in other forms.

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Chairman GIBBONS. Good morning, ladies and gentlemen.

Mr. Pickle, my fine friend and distinguished colleague who has been so interested in this subject matter, is conducting another hearing himself for his subcommittee today on oversight. And he asked me to state for the record for him that he wants this bill moved to the front burner. Parenthetically, so do I.

And he joins in the hope that we can get this bill moving very rapidly.

Certainly, it would be unrealistic to think we could enact it in this session of Congress, but certainly early in the next one.

And I want to pay tribute to Mr. Pickle for his long-term interest in the Caribbean, and for his vigorous and effective interest in the Caribbean. And I hope he will continue his oversight activities into it.

But our first witness today is the Honorable Clayton Yeutter, United States Trade Representative; a man who has done an outstanding job in his role as United States Trade Representative; and one that I'm just happy to welcome to our discussion this morning.

Mr. Yeutter, just proceed as you wish.

STATEMENT OF HON. CLAYTON YEUTTER, U.S. TRADE REPRESENTATIVE, ACCOMPANIED BY JOHN NUTTALL, FOREIGN AGRICULTURAL SERVICE, U.S. DEPARTMENT OF AGRICULTURE; AND JANINA SLATTERY, CHIEF, TRADE DIVISION, OFFICE OF REGIONAL ECONOMIC POLICY AND COORDINATION FOR LATIN AMERICA AND THE CARIBBEAN, U.S. DEPARTMENT OF STATE

Mr. YEUTTER. Thank you very much.

Mr. Chairman, it is a delight to be here. I know that we have been trying to schedule my appearance on this legislation for months.

Chairman GIBBONS. I realize you are a busy man. Real busy.

Mr. YEUTTER. Well, I apologize for the inconvenience that this has caused you, and an earlier cancellation on my part.

But hopefully we can get this process rolling. Because both of us share the same ultimate objectives in this area, as you well know.

I would like to go on also to congratulate you, Mr. Chairman, for the efforts that you have already expended on behalf of the CBI program and your enormous personal support for that program, not just in this legislation but through the years.

You have been one of the heroes of the U.S. Congress in advancing that cause.

Thirdly, I would just like to preface my remarks by saying that as this Administration is drawing to a close, Mr. Chairman, this might well be the final time that I appear before your subcommittee, and I hope you will pass on to your fellow subcommittee members how deeply appreciative I am of their enormous support over the past 3½ years.

Chairman GIBBONS. Well, you have earned it. And that is the reason why we are so supportive. And we appreciate your fine talents, and your vigor and your sincerity and your ability, Mr. Ambassador.

Mr. YEUTTER. Thank you. Good morning, Congressman Thomas.

Well, if I may, Mr. Chairman, I will make just a couple of broad observations about the CBI program, and then I will make some specific comments about the provisions of this legislation.

And I will try to do it quickly so that we can move on. I know you have a good many other witnesses.

First of all, it seems to me that a lot of people underestimate the success that this program has achieved thus far, and its potential for the future.

Part of that is due to what may have been unrealistic expectations at the beginning of the program. It is difficult for me to assess that because I was not in government when the program did first begin.

But I think all of us realize that there were high expectations for this program, particularly within the CBI countries, and perhaps, a lot of folks here and in the CBI area looked for too much too soon.

And at this point in time, my judgment is that all of us are a bit more understanding; have a higher level of understanding about what is really doable, and the feasibility of various elements of the program.

And that is probably a healthy development that we look at it with greater realism.

But aside from that, clearly one of the principal reasons that the program has had less apparent success than everyone anticipated was because of the decline in petroleum exports to the United States.

When one looks at the numbers in the 1983 to 1987 period, there is a decline of about $3 billion in CBI exports. And everybody says, well, if exports have gone down $3 billion in that 4-year period, the program must be a failure.

Well, petroleum exports to the United States declined by more than $3 billion. So if one excludes petroleum, the picture changes immediately.

And then one must also take into consideration sugar, which is an issue that is raised in your legislation, Mr. Chairman. And because of our existing sugar law in the United States, that too exacerbated the problem over the last 4 years.

And so if one therefore eliminates both petroleum and sugar from consideration in evaluating the program, the picture changes rather dramatically, and it's much more positive.

I will summarize just two or three statistics which illustrate this. First, when one looks at nonpetroleum products as a group, exports by the CBI to the United States are up 23 percent in that same period, or about 4½ percent a year.

And if one looks a little more narrowly at what we call nontraditional products, which are really probably the major growth area of the CBI, those exports have been going up at about 10 percent a year, which is rather remarkable.

And if one looks at the program from the standpoint of the parochial and specific interests of the United States, our exports to the Caribbean Basin have gone up 20 percent in that same 1983–87 period.

So we have reaped some benefits from the CBI program, and the CBI countries themselves have reaped benefits, particularly in these nontraditional areas.

Now that is not to say that we can't improve it or should not improve it. The preparation of this legislation by you and your colleagues, Mr. Chairman, indicates a sincere desire on the part of the Congress to do more to enhance the economic performance of the CBI, and the Administration certainly shares in that objective.

It is in the best interests of all of us to have that happen, and therefore, what we need to do legislatively, Mr. Chairman, as you well know, is work together on a product that will do that.

With that, permit me then to just turn to the legislative proposal itself. Broadly and generally, the Administration supports what is in your enhancement bill, Mr. Chairman. We have concerns and reservations about a few specific provisions; some that we believe would be unwise, and I will mention those.

But if one evaluates it as a package, does so in the aggregate, it is certainly a significant step forward, and is warmly welcomed by the Administration for its contribution to this cause.

Now, to be more specific, I will go through the bill very quickly in more or less the chronology of the way it is developed and just make brief comments about the major provisions.

The first one is a proposed change in the rule of origin for the eastern Caribbean. And I hesitate to start off with one with which we have some concern, but since it comes that way chronologically, I will do so.

We have reservations, Mr. Chairman, about having different rules within the CBI for different areas. We certainly understand the economic difficulties being experienced by those small islands in the eastern Caribbean.

And one can probably—perhaps undoubtedly—make a case for special attention to those concerns.

But I hope that the Congress will think that through carefully. We need to do likewise. Because once we begin to segment the CBI into different areas of trade treatment, that becomes, one, complex, and two, in a sense discriminatory.

As you know, we've tried to do that more broadly in the GATT through special and differential treatment for lesser developed countries generally. And most people believe that has not been the most productive of experiences for the GATT as a whole.

And a lot of folks all over the world are beginning to ask serious questions about the wisdom of special treatment, at least in a good many areas.

It is not that the concept as a whole is flawed; it is that problems develop in the administration and execution that sometimes make the special and differential treatment a negative rather than a positive when viewed in the long run, and when viewed from the standpoint of a sound trade policy.

So we would question the merits of special treatment for the eastern Caribbean within the CBI just generally; but more specifically, on this particular provision, when one goes to a 25 percent U.S. content in the rule of origin out of a 35 percent requirement, that really leaves only 10 percent for the eastern Caribbean itself, which is not a lot of input.

And we believe that is going to cause administrative difficulties in meeting the substantial transformation test, or perhaps, cause a prostitution of the substantial transformation test. And that would not be wise, either.

So overall, Mr. Chairman, we would prefer not to see that particular eastern Caribbean provision.

With respect to the next section, which relates to short supply, if one may call it that, or special treatment for CBI products that are not produced domestically in sufficient supply, or where no directly competitive U.S. product exists, you have definitions in all those categories on that particular provision. We would support that.

It probably will not have a major impact on the CBI, but it will have some impact. It clearly will be a positive impact. And we are supporting it.

With respect to the next one, which relates to a tariff rate quota for some of the articles that are now exempt, and then I would skip into Section 7(a), because it's interrelated with that, the possibility for duty-free, quota free treatment for textiles articles assembled under the 807 program from 100 percent U.S. materials.

We have some reservations about all of that. And I will try to be a bit more specific. It may be that some of this can be dealt with in terms of legislative drafting, Mr. Chairman. And all of us in the Administration would be prepared to work with you on that as this issue unfolds.

The first one, Section 4(d), applies not only to textiles, of course, but it applies to other provisions, other products, that are now not receiving duty-free treatment under the CBI program.

These are obviously the most import-sensitive issues. And this becomes a very delicate question.

What you are attempting to do in that provision, of course, is provide at least some access for the CBI in these products that are highly import-sensitive here in the United States.

That particular provision as it's now drafted, as I read it at least, calls for a 5 percent criterion based on total imports into the United States.

If that is based on a given year, we see some major Customs problems in determining precisely when that 5 percent figure is met, since we do not know what the 100 percent figure is in a given year.

One could cure that, of course, by doing it on a historical basis, that is, based on a prior year, the prior two years or three years or something. But if there is an attempt to do it on a given year basis, there would be no way to know when you are at a 5 percent level. And that would cause difficulties in determining when the tariff rate quota applies.

Going beyond that to the 807 elements, which take the rest of the textile picture, we can be supportive of what you have recommended, Mr. Chairman, or advocated, in Section 7(a), in the textile area, though we have a couple of administrative reservations, once again, there.

And in some respects, we believe that the present program dealing with guaranteed access levels may be superior. It is perhaps even possible to combine these two in some way to have the most desirable features of all, and take out some of the most undesirable features.

And I know you have Carlos Moore testifying later today, and you might want to seek his observations on this entire issue.

The guaranteed access level program has really worked out quite well. Those levels have not been restrictive, by and large, on products coming in from the Caribbean, and the textile and apparel areas, so long as they're made from U.S. product, and so long as that product is cut in the United States.

And in fact, that program makes some allowance for non-U.S. product that is essential to the production process: zippers and buttons and things. Which, as we read it, would not be encompassed in your 7(a).

So our guaranteed access program, which permits some non-U.S. auxiliary products, is advantageous as compared to the Section 7(a) of your legislation.

And we believe the guaranteed access level, with its requirement for having the product cut in the U.S., has some advantages in terms of making sure that there is no circumvention.

In other words, we have discovered it is relatively easy to track those cut goods as they go to the Caribbean and then come back to the United States in the form of finished articles; whereas, if that requirement were eliminated, as it is in Section 7(a), we might well have a more difficult tracking problem, and we might well have some circumvention.

Our view is that with the present guaranteed access level program, and the requirement to have a product cut in the U.S., that there has not been much of any difficulty with circumvention.

Products have been tracked well. The invoicing program is running smoothly. And so on.

I simply articulate all those concerns now. And someone may wish to expand on those to a greater degree later.

The extension of the program to the year 2007, we are supportive of that. And we would also be supportive of an automatic roll-over program, Mr. Chairman. If you would like to build that in so that it would be a continual 12-year program, indefinitely, we would be supportive of that.

We believe the continuity of that program, the assurance that it provides to investors, would be a healthy development. As to the question of expanding the duty-free allowances for returning residents, we are likewise supportive of that provision, and we would also support increasing the rum allowance that can be brought in duty free from one to two liters. So certainly we can boost that program somewhat.

Cumulation is an element of this bill. As you know, Mr. Chairman, there are some cumulation provisions in the omnibus trade bill which just passed the Congress and was signed into law by the President. And those provisions relate to negligible import from small countries such as those in the CBI; in other words, the CBI will get some benefit from the omnibus trade bill in this regard.

We would not oppose, however, the provisions that you have here, which are somewhat different from the omnibus trade bill, and perhaps, complementary thereto.

You will note that I did not say that we would support that. I said we would not oppose it. The reason I chose that specific language is that it is possible that others may raise some questions about this provision under the GATT anti-dumping code.

We must obviously pay attention to our international obligations in this regard. And in addition, some might also raise questions about this under our GATT waiver for the CBI program. We will also have to be sensitive about whether or not what we do on cumulation will cause us difficulties under our GATT waiver.

If that were the case, of course, we would have to start paying compensation to any country who deemed itself adversely affected by this or any other aspect of the CBI program.

So we ought to do our best to try to preserve the GATT waiver, and that might require some additional discussion by the GATTologists and our GATT lawyers.

But ignoring those problems for purposes of discussion of the issue, in principle, we would share your view about cumulation for countries such as those of the CBI which are really not a significant factor in these issues.

ETHANOL

The ethanol provisions have been somewhat overtaken by events, too, as you know, Mr. Chairman, with the provisions that are included in the omnibus trade bill.

Those go a little beyond the provisions that you have in this bill. They carry the provisions through 1989. Your bill does it through 1988.

The omnibus trade bill also provides for studies of what the rule of origin in this ethanol area ought to be. So for all practical purposes, there probably is no need for these ethanol provisions here.

Whether you wish to do anything further on ethanol is something that you may want to explore as time unfolds.

SUGAR

I am sorry, Mr. Chairman, but we just have no choice other than to oppose the sugar provisions that are here. All of us recognize full well the adverse implications of our domestic sugar law on the CBI.

That is regrettable, because it has certainly caused all of us difficulties in the administration of the CBI program, and the image that the program has.

Fortunately, we were able to provide a bit of relief under our existing law recently, because of the drought and some other considerations which made it possible for us to increase our sugar quota overall by 300,000 short tons.

Nevertheless, clearly the CBI countries are legitimately troubled by the restrictions that we have on sugar.

Our difficulty here is not one born of fundamental trade policy concerns, but born of the fact that we have GATT rules in this area. The provisions that are in your proposed legislation would in essence create a preference for the CBI which we believe would be immediately challenged under the GATT.

And if we were to lose a GATT case, as expected, we would have to pay either compensation or accept retaliation from countries, such as Australia, that would be adversely affected by the provisions.

And we have the same concern that I just articulated with respect to cumulation, and that is whether it would jeopardize our GATT waiver. It is certainly possible, perhaps probable, that discriminatory sugar provisions would jeopardize our overall GATT waiver which would cause us difficulties, and not only on sugar, but on all other aspects of the CBI program as well.

Those, Mr. Chairman, are my basic comments on the bill. I'd like to just add a couple of final wrapup comments that are peripherally related to this but hopefully of interest to you as well.

I have some comment in my overall testimony, my written testimony, about infrastructure support. I think it is relevant to this committee that the Department of Agriculture and AID have been working with the Agribusiness Promotion Council, it's called, to begin to develop plans for trying to help a bit on agricultural infrastructure in the CBI.

We ought to do whatever we can to encourage that development. I don't know that that needs any legislative push. But certainly these are still primarily agrarian economies. And whatever can be done to improve agricultural infrastructure would be a healthy development. So I mention that only as a matter of information.

The second issue is the question of tourism. And I meant to mention that in the context of my comments about the eastern Caribbean, because of our opposition to the provisions that you have here for altering the rule of origin for the eastern Caribbean.

There are some sections of the CBI where tourism is clearly one of the few potential opportunities for economic growth and development. We as a Nation haven't done a lot to help the development of tourism in the Caribbean, at least through government programs.

Obviously, we have private investment there. We are trying to stimulate additional private investment in the CBI countries.

But our Agency for International Development has traditionally shied away somewhat from tourism development, feeling that is too capital intensive, and is not an effective utilization of their funds.

I do not want to second-guess AID here, particularly with Alan Woods, my former deputy, now being administrator of AID. But I would hope that the issue of tourism in the CBI would receive very careful evaluation both on Capitol Hill and within the Administration.

Whether you wish to say something on that subject in the legislation or not, Mr. Chairman, is clearly up to you. But you may recall that when Chairman Pickle and some of the rest of us, including Congressman Thomas, did our trip through the Caribbean a couple of years ago, that issue came up over and over again, with concerns being expressed by the CBI countries that we really were not getting a thrust out of the CBI program in the tourism area, and there were some places in the Caribbean where that was, for all practical purposes, their only economic alternative.

The third point or final point I would make that has some breadth to it beyond specifics of your legislation is the Section 936 program, which as you know, Mr. Chairman, was intended to stimulate additional investment through the Caribbean area coming out of Puerto Rico.

It would seem that that program is not reaching the expectations that were held out for it in the beginning. There has been some evaluation of the program by AID and others, and people within the Administration, Mr. Chairman, are now beginning to focus on how we can make Section 936 more effective.

Again, this might not require any legislation on your part; hopefully, would not. But you may want to explore that issue more thoroughly as these hearings develop, particularly with folks like Mr. Colorado from Puerto Rico who has been in charge of that program.

I had a discussion earlier this morning with Deputy Secretary of the Treasury Peter McPherson about this, because this is basically a Treasury Department lead. I know that Peter is concerned about this, and this came up totally out of the context of this hearing this morning.

And he indicated to me that he, too, was disappointed that the 936 funds just don't seem to be flowing very rapidly, and they need to look at that issue within Treasury, and he wanted to get fully involved in that discussion, and pull USTR into it as well, and perhaps other departments in the government; Commerce certainly has an interest in this area too. And that needs to be done.

Because we need to find out with some precision why it is that 936 hasn't provided the investment thrust in the CBI area that all of us had hoped would occur.

And then my final comment, Mr. Chairman. I inadvertently slipped over one of the sections of the bill which relates to reporting requirements by the beneficiary countries on what they are doing to enter into tax information exchange agreements, and what they are doing to use the CBI program and whatnot.

I am a bit concerned about the tone of that particular section of the legislation, Mr. Chairman; not about the intent, but about the tone, which seemed to be a demanding one on the CBI countries.

We don't ordinarily demand that countries report to the President of the United States on what they are doing. It just seemed to me that we could do that maybe through a consultation type of process.

Whether that is specified in the legislation, or whether we just do it informally, is not a major question as far as I am concerned. But I would just recommend for your consideration that we make those provisions more consultative in their orientation than a formal reporting requirement for governments.

And that is the essence of my comments, Mr. Chairman. I would be glad to take any questions that you or anyone else might have.

[The statement of Mr. Yeutter follows:]

STATEMENT OF AMBASSADOR CLAYTON YEUTTER
UNITED STATES TRADE REPRESENTATIVE

I am pleased to appear before you this morning to give the Administration's views on H.R. 3101, the Caribbean Basin Economic Recovery Expansion Act.

I congratulate the Chairman and the other co-sponsors of this bill. The proposals you have put forward are daring and imaginative and many will, if enacted, add new dynamism to the original Caribbean Basin Economic Recovery Act (CBERA), also known as the Caribbean Basin Initiative (CBI). H.R. 3101 represents a comprehensive effort to respond constructively to a number of proposals put forward by the CBI beneficiaries.

The Administration strongly supports enhancement of the CBI.

Even though not all the benefits of the original program have been fully utilized, we believe that proposals to enhance it are both necessary and timely.

Necessary, because we know that many products which Caribbean producers are capable of exporting are excluded from the CBI. Non-traditional exports from the region are growing, steadily and surely, and in time will result in a more competitive Caribbean region with a more diversified export base. But much more could be accomplished in the region if some of the products currently excluded from the program could receive at least limited CBI eligibility.

Timely, because enhancing the CBI now would give the program new impetus, stimulating additional private sector interest in the Caribbean Basin, as well as interest among potential investors and the beneficiary country governments themselves. Action by the U.S. might spur other countries also to improve their Caribbean trade preference programs.

By supporting the CBI's enhancement, I do not wish to imply that the original program has not been a success. CBI beneficiary governments are on record recognizing the program as a positive contribution to their development through the significant new export opportunities it provides them.

For instance, President Balaguer of the Dominican Republic has said that the CBI is, "the most constructive initiative which has ever come to Latin America.... [It is] a pragmatic movement which has achieved a great deal of practical good....The Dominican Republic specifically has improved its economy, has progressed, has established a large number of free trade zones opening foreign industries and thus has reduced its unemployment rate a great deal."

In a moment I will summarize some statistics demonstrating that the program has resulted in impressive export gains in several product areas.

At the same time, I support CBI enhancement because I believe taking such actions would make it possible to accomplish the objectives of the program more quickly and more thoroughly. A fortified CBI would contribute importantly to greater prosperity and economic stability in the Caribbean Basin. These conditions, in turn, would enhance prospects for greater political freedom and stronger democratic institutions in the region.

Many of the proposals in H.R. 3101 represent a responsible approach to CBI enhancement. They recognize that a reasonable balance must be struck between the economic needs of the CBI beneficiary countries and the potential concerns of U.S. producers and workers. The Subcommittee will, of course, need to weigh carefully concerns expressed by the domestic industries most likely to be potentially affected by CBI enhancement, as well as the views of the CBI beneficiaries.

Trade Performance under the CBERA

Much attention has been paid to the decrease in the value of aggregate exports from the CBI beneficiaries since 1983. From 1983 to 1987, total U.S. imports from designated CBI beneficiaries fell progressively, from $9.0 billion to $6.2 billion.

It is important to bear in mind that U.S. imports of petroleum from the CBI countries fell from $5.1 billion in 1983 to $1.5 billion in 1987, an amount exceeding the net decrease in the region's exports to the United States for that period. This decrease affected three CBI beneficiaries: the Bahamas, Netherlands Antilles, and Trinidad and Tobago.

Other traditional products exported by the region also have not fared well. U.S. imports of sugar in 1987, for example, dropped by $308 million below the 1983 level. Coffee prices have been on a rollercoaster, rising dramatically for several months in 1986 before retreating to below historical levels in 1987.

Having acknowledged the reality of a decrease in the region's traditional exports, we must recognize that this trend would have occurred whether or not there was a CBI program. We must, therefore, ask ourselves how much worse the situation might have been if the CBI had not been in place to stimulate an increase in non-traditional exports from the region. The CBI has softened the blow that these external economic conditions would otherwise have imposed on the region. At the same time, we must be sensitive to the harm to the region caused by those economic shocks.

To keep it all in perspective, we must not lose sight of the important gains which the Caribbean Basin is making in promoting its non-traditional exports. U.S. non-petroleum imports from designated CBI countries grew by 23 percent between 1983 and 1987, at an average annual growth rate of 4.5 percent. By comparison, U.S. imports of non-traditional products from the region, such as apparel, seafood, jewelry, and handicrafts, have grown at an annual rate of over 10 percent during the past four years. Consequently, there should come a time, and I believe in the very near future, when the region's trade performance will clearly reflect the role which development of non-traditional exports is playing in the Caribbean Basin's economies.

The real success of the CBI can be measured in the job creation and economic growth sparked by increased U.S. investment, especially in rural areas. For example, an American firm built a large apparel factory in the small town of Lucea (pronounced Lucy), some twenty-five miles from Montego Bay in Jamaica. The factory has created some 350 jobs in this agricultural community, with average wages and benefits well above the national minimum. But the town of Lucea is not the only community that is benefitting from this operation: related jobs have also been created in the U.S. where the fabric is knit and cut.

Let me mention a couple of other specific examples. Last year's study of the CBI by the U.S. International Trade Commission (USITC) highlighted several products for which exports from the region expanded markedly. The report concluded that CBI treatment contributed importantly to that expansion.

Of particular note is whole fresh fish (TSUS 110.35) from Costa Rica, shipments of which climbed from $3.6 million in 1984 to $14.3 million in 1987. Fresh melons, other than cantaloupes, (TSUS 148.30) from Guatemala are also worth noting. Exports of this item from Guatemala in 1984 were $2.1 million; shipments in the first half of 1988 already total $3.4 million. These melons supplement U.S. domestic supply, since they enter in the U.S. off-season.

Honduras and Costa Rica have vied for first place in exporting packaged fresh pineapples (TSUS 148.96) to the United States under the CBI. Honduras was principal supplier of the product in 1984-1985, with shipments of $7.7 million and $7.6 million, respectively. In 1986, Costa Rica overtook Honduras, accounting for $15.1 million in U.S. imports of this category. If shipments for the remainder of 1988 continue the current trend, year-end exports of pineapples from Costa Rica to the United States will reach nearly $22 million this year. USDA reports that other important horticultural exports are cantaloupes from Guatemala and El Salvador; frozen broccoli from Belize; and cut roses from Guatemala.

Thus, the fundamental purpose of the CBI -- broadening and diversifying the production and export base of the region -- is being fulfilled. Overall export performance from the region may have been disappointing, but to stop there is to tell only a misleading part of the story.

It is important also to note that export growth varies widely among the beneficiary countries. Jamaica, Costa Rica, and the Dominican Republic, for example, are doing well at diversifying their exports. Some CBI countries are making progress in adapting existing industries to production for export. The most successful are those that have addressed infrastructure and policy constraints to new investment and to private sector initiatives.

The CBI also benefits U.S. producers. Greater market access by CBI countries to the United States has enabled them, in turn, to purchase more of our exports, reversing the decline of the early 1980s. U.S. exports to the CBI countries in 1987 were $6.6 billion, 20 percent higher than in 1983.

U.S. exports of machinery and transportation equipment to the region, for example, have grown 23 percent between 1983 and 1988. The important point to remember is that the CBI program is good for the region and good for the United States. An economically prosperous and viable Caribbean Basin inevitably will create new demand for U.S. exports.

Investment Impact

Trade flows, of course, are only one part of the picture. Investment flows to the CBI region must also be taken into account. The CBI Task Force, through the U.S. Department of Commerce, has recently completed a comprehensive survey of new, foreign-exchange generating investment in the region since the start of the CBI. While not all of these investments are the direct result of the CBERA incentives, there is no question that the CBI, with its greater focus on the region, has been instrumental in attracting investors to the Caribbean Basin.

This survey found that, since January 1, 1984, 646 companies have invested more than $1.5 billion in the Caribbean Basin, creating employment for more than 116,000 people. We think these are dramatic figures that reveal a real current of economic change in the region.

The Overseas Private Investment Corporation is helping to stimulate investment in the Caribbean Basin. In the period from fiscal year 1984 to July 1988, investment in projects located in the region receiving OPIC finance or insurance assistance totaled $831 million, with $161 million representing OPIC's direct financial commitment.

OPIC is sponsoring investment missions this year to Trinidad and Tobago, scheduled for October 10-16, and to Costa Rica on December 11-16. These missions will enable participating U.S. business executives to review specific opportunities and to take a close look at the overall business and investment climates in both countries. Non-traditional efforts include a private equity fund to assist the Government of Jamaica in privatizing its hotel industry. The pending OPIC reauthorization legislation includes a pilot program enabling OPIC to take direct equity positions in small businesses in the Caribbean Basin.

Another interesting development in the investment area is establishment of privately-owned industrial free trade zones in the Dominican Republic. Expansion of these zones throughout the country will help to attract new investment, adding to the economy's capability to continue diversifying exports, and to provide substantial new employment.

We believe the section 936 program, combining below-market financing and tax incentives, holds great promise as a vehicle for generating new investment in the region. It should be used to the fullest extent possible. I am pleased to note that a $1.2 million investment using 936 funds recently has been approved for Dominica to manufacture cardboard boxes. I hope this will be followed by many others.

We continue to encourage CBI countries to sign Tax Information Exchange Agreements (TIEAs), enabling them to become eligible for 936 investment funds. Earlier this year, Dominica joined Jamaica, Barbados and Grenada in implementing TIEAs.

Efforts to increase investment in the region in agribusiness projects also will be important. Agriculture remains the dominant sector in the economies of the Caribbean Basin and consequently offers perhaps the most immediate opportunities for generating employment, income, and foreign exchange in the CBI beneficiaries. Nevertheless, the level of U.S. investments in agribusiness projects in the Caribbean Basin has remained relatively flat during the past four years.

A number of constraints to expanded investment in agribusiness exist. These include, but are not limited to, a shortage of investment capital for such projects, inadequate transportation links and infrastructure, and a lack of sufficient marketing channels for traditional and non-traditional agricultural exports from the Caribbean Basin.

To help foster a government/private sector partnership to address these constraints, the Agriculture Department has established an Agribusiness Promotion Council (APC) composed of private sector agribusiness leaders to advise the Secretary of Agriculture on opportunities for the CBI. The Council's extensive network is providing an effective mechanism to attract additional agribusinesses to the Caribbean Basin region. USDA will augment the Council's activities this year by sponsoring agribusiness-related investment missions to the Dominican Republic in October and to the Bahamas in November.

Efforts to involve the private sector more closely in industrial development in the Caribbean Basin also are underway. The CBI Task Force has formed the Caribbean Basin Business Promotion Council. This federal advisory committee consists of 30 senior executives from the private sector who have extensive trade and investment experience in the Caribbean region. The Council members share their expertise with U.S. officials and the Caribbean Basin governments, as well as with their counterparts in the private sector in the region. During the balance of this calendar year, they will meet with various trade and investment promotion groups in several CBI beneficiary countries.

Before I move to our analysis of H.R. 3101, I should mention that the Administration has implemented the CBI vigorously, and by reallocating existing resources. For example the Department of Commerce has operated its highly successful CBI promotion programs (including the responsibility of CBI Ombudsman) since

1984 within existing resources. USDA has carried out its widely acclaimed agribusiness workshops on marketing and development also using existing resources.

My colleagues at the Agency for International Development have supported the CBI significantly through a combination of Economic Support Funds, development aid and P.L. 480 assistance. AID's activities in support of the CBI range from providing assistance to host governments to implement policy reforms to encourage private enterprise, to financial assistance to local chambers of commerce and trade associations.

Prospects for the future, however, appear dim. While everyone in government today must of necessity face constraints on resources, I understand that AID's resources to the Caribbean in fiscal year 1988 were reduced substantially, particularly in the program supporting economic policy reforms and private sector initiatives in the nations of the Caribbean. Since these funds help to underwrite a number of other government agencies' activities in the region, such cuts have very serious implications for the Administration's continued ability to carry out programs in support of the CBI.

Comments on the Specific Provisions of H.R. 3101 and Discussion of Administration Proposals

Let me now turn to the major provisions of H.R. 3101, giving as specific an Administration view on them as possible. In several instances, I will outline proposals for modifications or alternatives which we offer to the Committee for its consideration.

Section 3 -- Special Rule of Origin for the Eastern Caribbean

Since I accompanied Congressman Pickle's delegation during their visit to the Caribbean in January 1987, I understand the intent of this provision to create a more liberal rule of origin for Eastern Caribbean beneficiaries. Nevertheless, we have reservations about the provision for two reasons. First, we are concerned about splitting the Caribbean Basin region into separate groups, particularly along geographic lines. We believe the CBI should promote economic integration throughout the region as a whole.

Second, we are uncertain that the provision would do much to address the actual difficulties the Eastern Caribbean is facing. Increasing the allowance for U.S. content to 25 percent would leave only 10 percent which would have to be of local origin to satisfy the 35 percent rule, while the requirement for substantial transformation remains in place. Customs officials believe it would be difficult for the beneficiaries to meet the substantial transformation test with only 10 percent of a product being of local origin.

We surveyed a number of the potential beneficiaries of this provision to ascertain what impact it could be expected to have on their CBI exports. So far, we have not been able to identify a single product which would benefit from the provision. The current proposal, to be effective, probably would require a modification in the requirement for substantial transformation. This, in turn, could lead to pass-through problems unless an adequate safeguard of some sort were devised.

I sympathize very much with the Subcommittee's effort to respond to the difficulties faced by the Eastern Caribbean economies. Some of those economies seem to be making progress in diversifying their economies -- we've seen some recent and interesting investments moving into St. Lucia and Dominica. The picture may not be as dim as it once appeared, but I encourage the Subcommittee to continue giving consideration to ways in which the CBI could be enhanced in general so that the program provides the Eastern

Caribbean economies with new and expanded opportunities just as it is doing for many of the larger countries.

The tourism sector has the potential to provide much of the economic base in the smaller countries. This sector is second only to agricultural exports as a source of foreign exchange and the mainstay for most Caribbean economies. The Caribbean tourism industry in 1986 accounted for approximately $5.6 billion in foreign exchange earnings. In 1987, tourists spent $6.7 billion in the region. This industry employs some 326,000 people, directly and indirectly, throughout the Caribbean Basin.

Tourism is the only industry in the region showing steady growth since 1973. Development of Caribbean tourism pays dividends in the form of greater visitor volume, creation of jobs and increased construction activity. The majority of development in tourism is by U.S. investors working in areas such as roads, hotel and restaurant construction, equipment and supplies, sewage and water treatment facilities, utilities, telecommunications, airport construction and expansion, airline services, and recreational equipment.

The tourism industry in the region is beginning to capitalize on cultural and historical themes, no doubt aided by the upcoming quincentennial celebration of Columbus' discovery of the Americas in 1992. Development of tourism in the Caribbean ultimately means more U.S. exports to the region, as we have found that some 60-80 percent of every U.S. dollar spent there eventually is repatriated to the United States.

Tourism, as a very labor intensive industry, holds the potential to benefit Caribbean Basin economies in numerous ways, particularly if linkages to other sectors -- agriculture, manufacturing, and other services -- in the local and regional economy can be fostered. Tourism means jobs, income, new skills, and more diversification in local economies. The tourism industry should be considered fully a part of the CBI.

Mr. David Rockefeller, in his testimony before this Subcommittee on March 28, proposed "sense of the Congress" language to address this need:

> The Congress finds that....the tourism industry must be recognized as a central element in the economic development and political stability of the Caribbean Basin region, through its potential for increased employment, foreign exchange earnings, important linkages with other related sectors, and its positive complementary effect on trade with the United States; and
>
> It is the sense of the Congress that increased tourism and related activities should be developed in the Caribbean Basin region as a central part of the CBI legislation, and that a high priority should be assigned by the United States Government to projects and activities which develop and promote the tourism industry in the Caribbean Basin region.

We endorse his proposal and hope that you will give careful consideration to adding it to H.R. 3101. All parts of the Administration would like to assist in developing tourism in the Caribbean Basin.

The area of services, in general, may offer some fruitful economic opportunities for the smaller Caribbean economies. St. Lucia recently erected an earth station, for example, which should attract additional investment in data entry activities. Although the CBI program addresses trade in goods through its tariff provisions, we should not forget that trade in services is an equally important area which could be of considerable interest to the region.

Section 4(a) - CBI Treatment for Exempt Articles Determined to Be in Short Supply or of Which There Is No Domestic Production

The Administration supports this provision. We believe it could lead to some limited expansion of CBI product coverage. Several products have been identified as potentially eligible for designation under this provision.

We believe that a number of handicraft items from the region also could benefit. The requirement that the USITC must determine that no directly competitive articles are produced in the United States before the duty-free treatment can be granted to a particular category provides an adequate safeguard to U.S. producers and workers.

Section 4(d) - Tariff-Rate Quota for Exempt Articles

This particular approach raises some complex administrative difficulties, especially for textiles and apparel articles. It is somewhat less complicated for the other categories of exempt articles (petroleum, leather articles, and canned tuna), although I would note that canned tuna already enters the United States subject to an annual tariff-rate quota.

We have given this proposal careful review and believe that in the textiles and apparel sectors, it would be nearly impossible to administer. Specifically, the tariff-rate quota introduces another tier of quantitative restrictions which must be administered -- over and above categories already covered by specific limits (SLs), designated consultation levels (DCLs), and guaranteed access levels (GALs). Customs would be faced with the difficult task of establishing precisely the moment at which the 5 percent limit is reached on any category. By its very nature, the tariff-rate quota would encourage importers to concentrate shipments in the early part of the quota year -- in an effort to receive duty-free entry -- instead of spreading entries more evenly throughout the year.

We also believe that the five percent duty-free limit and the three percent growth factor would result in less benefits being offered to the region than first meets the eye. We estimate that as much as 51 percent of all textile and apparel production now being exported from the Caribbean Basin greatly exceeds the five percent limit imposed under this section.

CBI countries tend to specialize in a limited range of textile and apparel items, and the region now has substantial shares of the U.S. import market in some items. For example, in manmade fiber apparel, 48 percent of U.S. imports of brassieres, 32 percent of dressing gowns, 31 percent of nightwear, and 27 percent of underwear, come from the CBI countries.

Overall, the CBI is the source for more than five percent of some 41 categories of textiles and textiles products, including all of the region's top employment-generating products. The CBI's share of U.S. imports of such items continues to grow as U.S. imports overall continue to decline.

The likelihood of the CBI increasing its share in some other categories not presently being shipped is limited due to the characteristics of the region's economies -- usually they are labor-abundant, capital-scarce economies which may never be well suited to producing certain items. For example, only Costa Rica and El Salvador export yarn in any quantity, and Guatemala is the only CBI country exporting more than a negligible quantity of fabric to the U.S. Since tariffs on fabrics and yarn already are relatively low, we doubt that the duty break provided under this section would result in significant new investment.

However, we appreciate the Subcommittee's efforts to examine how CBI benefits could be extended, at least in a limited fashion, to items now completely excluded from the program. I believe this area merits further attention, and I hope the Subcommittee will continue its efforts in this regard. The CBI beneficiaries continue to have valid concerns about increasing their access to the U.S. market in these product areas, and the potentially affected U.S. industries also have concerns that must be weighed carefully.

Section 5 - Reports by Beneficiary Countries

The Administration could accept a modified version of this provision: an informal consultative process between CBI beneficiary countries and the Administration, on the same timetable as proposed in the legislation and focusing on the factors enumerated in this section.

Many CBI countries are already in the process of evaluating their macroeconomic policies. We agree that it would be useful for them, in conjunction with such efforts, to focus specifically on the steps they are, or could be, taking to utilize the CBI most effectively. Regular consultations between the Administration and the beneficiaries would provide useful assessments of each country's actions.

Section 6 - Termination of Duty-free Treatment

The Administration supports extension of the CBI at least through September 30, 2007, as called for in this provision. Extension of the program for an additional period would provide investors with greater certainty of CBI duty-free treatment. This would serve to spur potential investment by reducing risk for projects now in the planning stages.

The Administration would support an automatic annual "rollover" of the program, providing for a uniform future period of CBI benefits; this would send an even stronger signal to the investment community. It would provide potential investors with the maximum degree of security and would avoid the necessity of renewing the program in its entirety at a future date. Of course, our ability to extend the CBI program for any period beyond its current expiration in 1995 would depend upon the United States successfully achieving an extension of the Article XXV waiver granted us by the GATT when the CBI first went into effect.

Section 7(a) - Special Tariff Treatment for Beneficiary Country Products

The Administration supports this provision. However, the Committee may wish to provide a de minimis allowance for some non-U.S. content to make this provision more commercially viable.

For example, on apparel and certain other textile products, such as soft-sided luggage, we believe that products entering the U.S. under the CBI Special Access Program should be granted duty-free treatment. This program provides liberal access to the U.S. market under "guaranteed access levels," or GALs, on eligible articles assembled in the Caribbean Basin from fabric manufactured and cut to pattern in the United States. We propose that CBI duty-free treatment be extended to items for which GALs have been negotiated.

We would retain current regulations and verification procedures for such items. That is, importers would have to document to Customs that items are assembled from fabric woven or knit, and cut, in the United States.

The GAL program already contains a provision allowing items to incorporate non-U.S. "findings and trimmings" (e.g., zippers, buttons, etc.) up to 25 percent of the value of the components used. This allowance is intended to address instances in which particular components may not be of U.S. origin. Retention of this allowance in our duty-free proposal would permit us to take account of commercial realities.

While we are still working out some of the implementation details, we believe this proposal has genuine potential for expanding both U.S. exports of cut fabric components to the region and for augmenting production of GAL-eligible items by the CBI beneficiaries. The GALs already offer quite liberal access to the U.S. market, as increases are granted virtually automatically. Granting CBI duty-free treatment to items under GALs enhances and reinforces the CBI Textile Special Access Program in a way that benefits CBI and U.S. producers alike.

Currently, five CBI beneficiaries have signed textile agreements containing GALs. These are Jamaica, the Dominican Republic, Haiti, Costa Rica, and Trinidad and Tobago, with the first three having more extensive GAL coverage. We anticipate that availability of duty-free treatment for GAL items would encourage wider participation by CBI beneficiaries in the CBI Textile Special Access Program.

Section 7(b) - Duty-free Allowance for Returning Residents

The Administration supports this provision. We believe it would encourage additional purchases by tourists visiting the region.

In addition, we would propose a provision increasing the duty-free allowance for rum that may be brought from the Caribbean Basin by U.S. tourists from one liter to two liters. This modification would stimulate local Caribbean rum production. Most current sales to tourists in the region are from duty-free shops, which stock primarily imported goods.

Section 8 - Cumulation Involving Beneficiary Country Products under the Countervailing Duty and Antidumping Laws

The cumulation provision [section 1330(b)] of the Omnibus Trade and Competitiveness Act of 1988 permits the USITC to exclude from cumulation in countervailing duty and antidumping investigations those countries with "negligible" imports which they determine would have no discernible adverse impact on domestic industry.

This "negligible" import standard represents an important modification to U.S. countervailing duty and anti-dumping law, and potentially could be beneficial to CBI suppliers, most of whom account for very small portions of total U.S. imports of any product category. At the same time, Mr. Chairman, we know that separate cumulation for the CBI in CVD and anti-dumping investigations, as provided for in this bill, is very important to the Caribbean Basin. Although we do not oppose this provision, we might, of course, need to expand coverage for the action under the CBI's GATT waiver.

Section 9 - Ethyl Alcohol Produced in Beneficiary Countries

The Omnibus Trade and Competitiveness Act of 1988, in section 1910, allows certain facilities in the region, through the end of 1989, to ship up to 20 million gallons of ethyl alcohol annually to the United States using the standard rule of origin in the CBERA. Perhaps more importantly, that section calls for the U.S. International Trade Commission and the General Accounting Office to carry out studies in the next six months which will help us determine what rule of origin ultimately should apply to U.S. imports of ethanol from the Caribbean Basin.

The approach called for in the 1988 Trade Act will allow operations which invested in the region under the original "rules of the game" to continue producing. Meanwhile, our experts will gather advice on which rule of origin can best offer opportunities for meaningful production and employment in the region and discourage "pass-through" operations. We also will receive information about the economic effects of ethanol imports from the Caribbean Basin on domestic producers, so that we can fairly assess recommended approaches.

I hope that we can devise a rule of origin which will provide the Caribbean Basin's ethanol producers with stable and predictable access to the U.S. market so that they can make long-term business decisions. I know that several members of this Subcommittee worked hard on the compromise approach ultimately adopted in the omnibus trade act, and I am confident that we can arrive at a formula next year that will help the CBI and avoid harm to U.S. producers.

Section 10 - Sugar Imports from Beneficiary Countries

The Administration must, regrettably, oppose this provision as it is drafted, although we share your desire for finding a way to increase the Caribbean Basin's access to the U.S. sugar market.

We recognize the great importance of the U.S. market for CBI sugar producers, and we acknowledge that the severe reduction in the U.S. quota for sugar imports has been a matter of serious concern to CBI beneficiaries. The situation was alleviated somewhat for this year when we recently adjusted our sugar import quota upward by 300,000 short tons, due to increased consumption and lower domestic production caused by this summer's drought.

While the provision in H.R. 3101 could lead to increased export earnings, employment and income generation in the Caribbean Basin, it would more than consume the global U.S. sugar import quota for 1988. The provision implies a preferential reallocation of the sugar quota to the CBI countries at the expense of other quota holders, which would be inconsistent with our international obligations under the GATT. Passage of this provision could jeopardize our GATT waiver for the CBI program. At the very least, we would be forced to compensate those trading partners which would demand equal treatment for their sugar exports.

This provision would make the U.S. sugar program a budget item and thus would be inconsistent with the 1985 Food Security Act. Another fundamental problem for us is that the proposal does not address the basic problems of the U.S. sugar program and would continue to encourage the Caribbean Basin economies to remain dependent on sugar exports at a time when the world market is in surplus, and likely to remain so.

The Administration has submitted proposed amendments to legislation introduced by Senator Bradley aimed at reforming the U.S. sugar program in a way that would allow U.S. sugar imports, including those from the Caribbean, to increase. We are still hopeful that H.R. 2017, the Sugar Program Improvements Act of 1987, might form the basis for revamping the sugar program and helping the Caribbean region.

I encourage this Subcommittee to continue its efforts to find a GATT-consistent way to allow the United States to increase its imports of sugar from the Caribbean Basin and that addresses our need for domestic reform of the sugar program. I will look forward to hearing more from you in this regard.

On a more general note, and in recognition of the special role which agribusiness development can play in the Caribbean Basin, I would like to recommend that the Subcommittee give consideration to how CBI enhancement legislation could acknowledge and strengthen the Administration's ability to support the agribusiness sector. Secretary Lyng has proposed the following language for inclusion in the bill, which I would like to offer on behalf of the entire Administration:

> Infrastructure Support.
>
> It is the sense of Congress that in order to facilitate trade with, and the economic development of, the countries designated as beneficiary countries pursuant to the Caribbean Basin Economic Recovery Act, the Secretary of Agriculture should, in consultation with the Agribusiness Promotion Council, coordinate with the Agency for International Development the development of programs to encourage improvements in the transportation and cargo handling infrastructure in these countries for the purpose of improving agricultural trade between these countries and the United States. Such programs should focus on improving these countries' distribution of agricultural commodities and their products and their phytosanitary institutions, quarantine capabilities, and pesticide regulations regarding agricultural commodities and their products.

Conclusion

In closing, I would like to emphasize that the Administration and the Congress are at the beginning -- not the end -- of a process which will lead to meaningful enhancements in the CBI.

The CBI has been characterized from its inception by a strong bipartisan tradition. As we embark on our joint effort to enhance this important program, I look forward to a continuation of that cooperative spirit.

I would be happy to answer your questions.

Chairman GIBBONS. Well, thank you very much. Your remarks have been constructive, and I think that within the framework we can work together and smooth out some of these things.

Like you, I felt frustrated when I looked at the sugar program; just didn't know what to do. So little of it is within the jurisdiction of the Ways and Means Committee.

But in effect, we just took a very Draconian type of step hoping that it would spur someone else to take other steps, mainly someone in the Administration, and someone in the Agriculture Committee.

I do not have any ill feelings of course against the American sugar industry. I just do not like protected industries in this country or in any other country. And I think that we have created a real problem with our sugar program.

I noticed that that problem extended as far north as North Dakota when we were there. I had farmers come to me and say, you know, we resent the sugar program.

The beet farmers can lease all the good fields around here, where we could be growing other crops, and just produce beets. And you have got to have sort of a license to produce beets, and we're excluded from it.

So it has repercussions domestically as well as repercussions internationally. And I hope that with the expiration of the sugar program, we can come up with something that makes more economic sense, and is more humane toward the Caribbean.

When does that program expire, do you remember? I've forgotten?

Mr. YEUTTER. We have somebody from the Department of Agriculture here; perhaps they can answer the question.

Chairman GIBBONS. It comes up soon. Next year, I think.

Mr. YEUTTER. Yes, that's my recollection too.

Chairman GIBBONS. When does that farm bill come up? It is next year, isn't it Bill?

Mr. YEUTTER. Yes, it expires in 1990.

In addition, as you well know, Mr. Chairman, the Uruguay Round may have some implications for this too. If we can finish the Uruguay Round agriculture negotiations by 1990——

Chairman GIBBONS. That would be very helpful.

Mr. YEUTTER [continuing]. It is certainly conceivable that there would be major changes in that legislation as a result of those negotiations.

Chairman GIBBONS. Now on your critique of the textile provisions, and of course you are right, it does not just apply to textiles, it applies to any product you can think of, your guaranteed access program is a step that helps there, and I am aware of it, and I am aware of the good that can come out of it.

Frankly, in putting the textile garment situation in here as I did, I did it as a provocative step hoping I could get somebody to move a little.

I get a little worried about the textile folks hiding under the skirts of the garment people. The textile industry, as I analyze it in the United States—and I talked to their bankers as recently as the day before yesterday—is very, very healthy and very competitive.

For obvious reasons, the garment industry is not. It has to compete against very cheap labor, and it is a very labor-intensive operation itself, and one that we have not succeeded in modernizing.

But the textile folks and the garment folks have been in bed together so long that they have a hard time separating from each other even though they are separate industries. Their lobby ties them together, for convenience sake as much as anything else; political muscle.

But by and large, I think the textile industry in the United States would be enhanced by the provisions of this bill. And the garment industry would suffer some damage from it; there is no doubt about it.

You said in your testimony that you would rather have a guaranteed-access-type provision under item 807 which requires the fabric to be cut in this country because it helped provide better control for Customs purposes.

It also has a tendency to put the control of the production of garments in just the hands of American garment makers. I am not necessarily opposed to that, but it also has that effect by requiring the cutting to go on in this country.

Was there any other serious question that you had about that provision that says if a product is made in the Caribbean or fabricated in the Caribbean wholly of U.S. components that it could come in quota free and duty free?

Is there anything other than textiles that bothers you in that?

Mr. Yeutter. From a policy standpoint, not to my knowledge. Give me the privilege of having my staff correct me if that is wrong.

Obviously, there is import sensitivity in that provision as well. But looking at it simply from a standpoint of basic policy and the administration of that policy, I don't see anything that would be troublesome.

One of the concerns, of course, Mr. Chairman, of just having totally open access with no overall ceiling is that it does make our domestic industries more nervous.

Your provision would not have any kind of quota, overall quota, whereas the guaranteed access levels of course do have a ceiling. They have really been essentially unrestrictive ceilings.

But at least the domestic industries have some comfort in knowing that there is a ceiling there. If that ceiling is eliminated entirely, that may generate some discomfort.

As a practical matter, it may not make much difference. Because as long as it is American product, it seems inconceivable to me that we are going to be inundated with massive imports of clothing as a result of this program.

But domestic industries may not see it that way, and may have a higher level of discomfort than you or I might have.

So aside from that, I don't see any major problem with it other than the administrative headaches it might create.

Chairman Gibbons. You mentioned the buildup of the infrastructure in that area. And it certainly needs it, particularly with this most recent hurricane.

I hope that there is something that the United States can do rapidly to help the people of Jamaica. And we may also need to help some of our own people out of there. But the people of Jamaica really need help, that poor country.

I am sorry to see what that hurricane has done to them.

The Cayman Islands have never joined the CBI, have they? They have preferred to operate those phony banks down there and stay out of the system.

Mr. YEUTTER. The Jamaica situation is tragic, Mr. Chairman, and we will certainly have to do everything we can to help out there.

As you know, we have an outstanding ambassador there, Mr. Sotirhos. I've talked to him on the telephone. And obviously, he will be working with great vigor on this issue for the remainder of his tenure down there.

We happen to have a son who was in Jamaica in the middle of that.

Chairman GIBBONS. Have you heard from him?

Mr. YEUTTER. Yes, he finally got through on the telephone to say that instead of lying on the beach he was doing card tricks because they couldn't get out of the hotel.

But better to be doing card tricks than to be in the middle of 200-mile-an-hour winds.

Chairman GIBBONS. Very, very sad. What it does of course to them down there in their agricultural program is a disaster. It'll destroy banana trees it takes years to replace. It will destroy cane that takes a couple of years to replace. It will destroy all their other crops.

And the facilities for processing, just terrible.

Ethanol, it is back in the technical corrections bill coming over from the Senate on the tax bill again. Have you had an opportunity to be exposed to the Senate's most recent——

Mr. YEUTTER. I have not seen the language, Mr. Chairman. I just learned about it as I was driving over for this hearing. So I have not had a chance to look at it at all.

In fact, the technical corrections bill has a Treasury Department lead rather than a USTR lead. But I will certainly check into the issue.

Chairman GIBBONS. Well, we would appreciate some strong leadership from the Administration on that. The President's position has always been good, and your position has always been good.

I regret we have so much trouble with Senator Dole.

Mr. FRENZEL. Mr. Chairman?

Chairman GIBBONS. Yes.

Mr. FRENZEL. Could we ask the Ambassador to give us a statement on that Senate amendment? I am told that when it was handled, in the Finance Committee, that the Treasury said that it had no objection to the amendment.

It does not sound to me like the trade policy that your department or the Administration would support, so maybe we could have a statement from you on it just so we would be advised when we are in conference.

Chairman GIBBONS. Appreciate that.

There are two things that are not in this bill that I had hoped we could introduce into it. One thing in particular, I would like to see us put up the wherewithal, the money, to offer scholarships to worthy and worthwhile students in the Caribbean.

I did not do it, because it would just require another referral of this bill to another committee, and I purposefully left it out.

I am told by leaders in the Caribbean that of course the wealthier and better educated students from better families come to this country for their higher education. But so often the poorer children are recruited to go off to Russia for their education.

And the Russians have been very active throughout the Caribbean in educating a lot of very fine young people. And I hope that we could do that.

Does the Administration have any real deep bias against that or concern about that?

Mr. **Yeutter**. I would certainly hope not, Mr. Chairman. That is again not within USTR's jurisdiction. But I would take advantage of this opportunity to comment on what you have just suggested.

As you may recall, I headed a large agricultural technical assistance program in South America a good many years ago, and we had a major scholarship program as part of that activity; in fact, one of the largest in the world.

And I must say, based on that personal experience, I will be a fierce advocate for programs of that nature for the remainder of my lifetime; and in my judgment, all Americans should.

My observation was that every Colombian who came to the United States on a fellowship was changed by that experience, and in a way that we would consider to be highly desirable.

They got an appreciation of what American democracy was all about; it wasn't just a matter of what they learned in the academic world. It was an appreciation of what this country is all about; what its people are like; what freedom is truly like.

It is a magnificent experience that pays enormous dividends for this country. We ought to expand all our foreign fellowship programs dramatically. It would be the finest investment we could make in terms of American foreign policy.

Chairman **Gibbons**. Perhaps we could take some of those that the Russians have given basic education to and bring them over here for a little post-post-graduate work. Maybe the contrast would help.

Mr. **Yeutter**. You know, interestingly, my further observation is that it is not even necessary to have them here for lengthy programs. They do not even have to be here two or three or four or five years. Six months makes a difference. Even short-term programs make a major difference in the way people view the United States.

Because their prior attitudes are all based on stereotypes, and usually those stereotypes are grossly inadequate representations of this country.

Chairman **Gibbons**. Very good. Before I turn the questioning over to Mr. Guarini, let me pay personal tribute to he and Mr. Frenzel for their Friends of the Caribbean program.

That has been a good, genuine, grassroots political support program, built right here, Mr. Guarini, and I appreciate it very much.

Mr. **Guarini**. Clayton, with regard to the last comment you made, there are 1,500 high school students being exchanged with

Russia, pursuant to an agreement made between our President and Mr. Gorbachev, and it will be interesting to follow that experience and experiment.

Your leaving is very regrettable. And I can say that you have been a tower of strength.

Chairman GIBBONS. He may not be leaving.

Mr. GUARINI. Well, I have some partisan feelings about that. But the country has been better off for your being here.

Mr. YEUTTER. Thank you.

Mr. GUARINI. And I know you will serve in many other ways, if not in the role that you are in now.

You've more or less had some negative thoughts about some of the provisions helping in the eastern Caribbean, sugar, and so forth. Are there any additional thoughts that you would bring to the table that aren't in the bill?

Are there any areas that you think we have neglected, because we don't have any special preserve here. And I am just wondering whether or not your department thinks we should include areas other than what we have.

We have talked about education; we did talk about 936. I don't know if you have any positive suggestions about 936. Only four countries, I understand, have gotten involved because of the tax information exchange act; and two of those countries had already agreed before the CBI, some 5 years ago, it was in the works about a tax exchange act.

So therefore, out of 22 countries, we have only had a net gain of two in five years, and that really doesn't speak very well for 936 working effectively.

If we have high expectations and there is a lot of millions of dollars in that program from tax expenditure money, I wonder whether or not you have any thoughts as to how we should effect any changes in the TIEA.

Should we impose our morality on other countries? The Dominican Republic, they would want to go ahead, but I understand that many of their businessmen feel that there would be a problem with the United States giving back information that the Dominican Republic may want to acquire.

And often the politics are different in our countries. And there could be a lot of revenge and political reasons why legitimate businessmen wouldn't want to be under provisions such as these.

Are we reaching out too far? And are we moving too slow in ou TIEA?

Mr. YEUTTER. I'm not in a very good position to judge whethe we're reaching too far, Congressman Guarini, because that is a Treasury responsibility.

Mr. GUARINI. Well, we have only done two countries.

Mr. YEUTTER. Yes.

Mr. GUARINI. Other than Jamaica and Barbados, which is Grenada. And that is hardly a country that we could say was put on the board. We invaded Grenada and have a special arrangement with them.

And Dominica is another small country. So that we are really stymied here.

Mr. **Yeutter**. As I indicated here, Acting Secretary McPherson is going to take this on as a personal project, and the committee may want to ask for his insights into this specific issue as you proceed.

As to your broader question whether we have any further suggestions for the legislation as a whole, we will certainly provide anything that we develop as this process moves along.

But there has been good coordination between our staffs and those of other executive branch agencies, and the committee, in developing this package. So my view is that all of the input that we have at the moment is here. But that isn't to suggest that there may not be some additional things that evolve as we proceed.

Mr. **Guarini**. If you do have any suggestions, we can expect they will be forthcoming?

Mr. **Yeutter**. Sure.

Mr. **Guarini**. Sugar is one of the biggest employers and one of the biggest problems. You are sympathetic toward sugar. And it is a big issue because it is a good part of the gross national product, and it is a very big, labor-intensive industry.

Is your objection to removing them back to the 1983 levels, quotas, because of GATT, and that we would need a GATT waiver?

Mr. **Yeutter**. Yes.

Mr. **Guarini**. Is that your principal objection?

Mr. **Yeutter**. Yes.

Mr. **Guarini**. You have no other objection other than that?

Mr. **Yeutter**. No, but that's a very big objection.

Mr. **Guarini**. Well, I know. I understand that.

Mr. **Yeutter**. Because you see if we were to enact this legislation, and if it were to be challenged, and we are confident it would be challenged in the GATT, and if we were then to lose the GATT case, although we would defend it vigorously, I must say that the probabilities of succeeding on our part are very slim.

Mr. **Guarini**. You couldn't get a waiver from GATT?

Mr. **Yeutter**. Most unlikely. That being the case, we would have to, as I said, either pay compensation then to every other country that is adversely affected, or accept retaliation, which means that somebody would have to pay.

Mr. **Guarini**. Well, then, do you support the Sugar Supply Stabilization Act, which calls for an increase in production, and a decrease of price?

Mr. **Yeutter**. I'm not sure whose legislation that is, Congressman Guarini.

Mr. **Guarini**. I think that was Bradley and Tom Downey who put it in, if I am not mistaken. What that called for was to increase imports to the United States by 500,000 tons. At the same time a reduction in sugar price supports by 1.5 percent over a period of four years.

It would bring the price down; it would bring the supply up. It would take more of their supply.

Mr. **Yeutter**. The Department of Agriculture people should speak to that if we have someone here.

My recollection, Mr. Chairman, is that the Administration did support that legislation when it was introduced. But I would want to make sure that that was verified by our USDA people.

Do we have anybody here?

Chairman GIBBONS. Looks like we have a volunteer here. Come on in and identify yourself for the record.

Mr. NUTTALL. Mr. Chairman, I am John Nuttall of the Foreign Agricultural Service. We administer most of the quote-unquote exempt programs related to sugar.

With regard to that legislation, we have supported legislation introduced by Senator Bradley and Congressman Downey provided that it had certain amendments.

In particular, regarding the one that increases the quota 500,000 tons a year, we run into a problem with respect to the no-cost provision of the Food Security Act of 1985. And so we made some amendments to it that would allow us to run that program at no cost and reduce price supports.

Mr. GUARINI. Are you for Senator Inouye's bill which increases sugar quotas 290,000 tons a year, and calls for a re-export program?

Mr. NUTTALL. The Department is strongly opposed to that.

Mr. GUARINI. Why?

Mr. NUTTALL. It creates a precedent whereby we use Department of Agriculture resources to promote exports of foreign-produced commodities.

Mr. GUARINI. How do you think we can best help the sugar producers in the Caribbean?

Mr. NUTTALL. Well, I think that the Administration has been on record as proposing to rationalize the domestic price support program, reducing price supports and so on.

Mr. GUARINI. That is more of the past, though. It really doesn't help to pick up dramatically the sugar production that is necessary.

The world price has fallen very, very badly, and the question is how they can come into our market.

Mr. YEUTTER. If I may supplement that, Congressman Guarini, because it has so many Uruguay Round implications.

As much as many of us would like to see changes in the U.S. domestic sugar program, I suspect that that is simply not doable here within the U.S. Congress except in the context of an Uruguay Round negotiation.

So what that probably means as a practical matter is that we need to do this as a multilateral exercise, so that the American sugar industry doesn't pay the price of adjustments throughout the world, not just in the Caribbean, but everywhere.

This is a multilateral problem, a global problem.

Mr. GUARINI. And I do hope you are successful on the agricultural subsidy program that we have.

Mr. YEUTTER. I think we have a good shot at that. It is going to be very difficult, obviously. But it seems to me we have a shot.

Mr. GUARINI. England is still resisting.

Mr. YEUTTER. Well, there is resistance in many quarters, but that is not unusual in a negotiation. And what that means to the CBI, of course, is that we are not likely to be able to do much about their sugar problems until the Uruguay Round concludes, meaning hopefully by the end of 1990.

So that means a couple of additional years—1989 and 1990—of stress, for the CBI in the sugar area because of——

Mr. **Guarini**. Let me just lastly ask, you mentioned that you don't want to give any special consideration to any islands in the Caribbean, and that instead of looking at it from an economic viewpoint, you prefer to look at it from a geographic viewpoint.

But the problem really is economic in many instances, particularly in regard to Haiti. And then Guyana has been in town, and they have a particular problem; they're trying to get aboard with the CBI as you know.

Don't you think that you have got to treat some of the eastern Caribbean islands different, or Haiti different, than you do the other islands like the Dominican Republic and others that have had a better success story?

Mr. **Yeutter**. Well, I would certainly be willing——

Mr. **Guarini**. In other words, you will can't equate Costa Rica and the Dominican Republic with Haiti in any way whatsoever. Can we have an economic formula instead of a geographic formula?

Mr. **Yeutter**. Well, obviously the economic circumstances are different, and I fully understand that, Congressman Guarini.

The question is whether as a matter of public policy we should begin to make a lot of differentiations. We are likely to have, instead of one Caribbean Basin program, 12 Caribbean Basin programs, all different.

And maybe that is possible, but it also has some implications that we need to think through very carefully. In other words, you will have first and second class citizens in some of these CBI programs if you go country-by-country.

Mr. **Guarini**. Just for whatever value it has, it seems to me that we are talking about an economic problem and not geography.

And I just wish that the Department would take that kind of a view if we are ever going to resolve any difficulties that exist in our trade.

Mr. **Yeutter**. We are not going to be difficult to deal with on that issue, because we would like to help the eastern Caribbean too, or help Haiti as well, because obviously, Haiti is a poverty stricken nation.

Mr. **Guarini**. And a special basket case, if I can say that.

Mr. **Yeutter**. Sure. But what I'm saying is, you have to be careful you don't jeopardize the entire program by beginning to make differentiations.

In other words, the differentiations are going to have to be very carefully done or we are going to cause more grief than help.

In this particular program in the eastern Caribbean, we have got to be very careful we do not have legislation that will jeopardize the whole concept of substantial transformation, which has implications way beyond the CBI program.

Mr. **Guarini**. Thank you, Mr. Chairman.

Chairman **Gibbons**. Mr. Thomas, first of all, we welcome you to your first official hearing of the trade subcommittee since you have been a Member. We look forward to your intelligent and vigorous participation, and I know it will be both, and glad to have you.

Mr. **Thomas**. Thank you, Mr. Chairman. It is a pleasure to be here with a vote. I know you have extended a lot of courtesies to me in the past as a kind of ex-officio Member in dealing with certain areas, and it is nice to be here as a full-fledged Member.

I won't react to what you said, Frank, but having come from the Agriculture Committee and gone through agriculture bills dealing with sugar, it is a very complicated area.

It is a problem, but my concern for the Caribbean is not to get them back on mainlining with sugar but to continue to diversify their economics which will make sugar less important to them.

And one of the ways we can deal with sugar in the world——

Mr. GUARINI. If the gentleman would yield, I agree 100 percent on that. I'm not in disagreement. Except they have to eat in the meantime.

Mr. THOMAS. I understand that, and we have some other programs we can work on.

But the major problem, if you are talking about sugar, as far as I am concerned, is the European Community. If the EC would cut back on exports of sugar, the world would look a little better.

In terms of this differential, it just looks to me like the industrial development bond problem all over again. You are going to be shopping as to where you go.

And if you have a set differential, and you plug that percentage in, and you in fact improve some eastern Caribbean countries vis-a-vis others, do you have a sliding percentage that allows for adjustment?

I get concerned when we try to play with the world that way. Again, what we maybe ought to do is talk about specific intensive care programs for areas that have specific problems rather than trying to create an imbalance which we will have to adjust to sometime in the future.

But Clayton, I would like you to react, to Section 8 of this bill, which would give the CBI special standing when we deal with countervailing duty and other injury tests. In the omnibus trade bill, there is a provision, as you indicated in your written testimony, dealing with the waiver on negligible imports.

But what this does is lock in a specific, separate track. My concern is over specialty agriculture and the fast track provisions in the omnibus trade bill.

Can you give me some assurances that for the foreseeable future we won't get into a situation where some specific agricultural commodity is in fact determined by the agency to have injury capabilities under the fast-track provision, but that the CBI can continue to import those products if this were to become law?

Or probably the worst of all situations, that both separately won't trigger it, but both together would. So you have actual injury, even though you don't have legal injury.

Mr. YEUTTER. Oh, boy. If you would repeat that. We may need a battery of lawyers on that one, Congressman Thomas. Because interpretations of these laws become very, very sensitive.

Mr. THOMAS. Well, let me just say what my concern is. In the omnibus trade bill, where you have the ability to define negligible, I wasn't so concerned.

But in this legislation where we set up that complete separate category and assure them of the ability not to be cumulated, causes me some concern.

Mr. YEUTTER. Well, of course it is the U.S. International Trade Commission that would do this. So the cumulation process will be done by them in a given case. So you will still have the protection of a formal determination at that time by the USITC.

In other words, they're going to have to make that determination. I would think that would be some comfort to your constituents.

Mr. **Thomas**. But my understanding is that in this legislation that the CBI imports would be handled separately; would not be counted toward that injury task?

Mr. **Yeutter**. Well, they will certainly be handled separately. But I am not sure. Mr. Gibbons may have to explain precisely what he had in mind.

Chairman **Gibbons**. I think what we did, we put in cumulation about four years ago, in the anti-dumping countervailing duty cases.

As soon as we got the CBI started, I think the first case arose over some flowers out of Costa Rica or something like that. It was really a minuscule amount of flowers, but it triggered some reaction in that area.

And since cumulation is new under our statute, and still in the testing stage; it hasn't been fully accepted by me at least; I was wanting to see if we couldn't get the Caribbean out of that cumulation problem.

We were thinking about cumulation mainly in steel and industrial products and things of that sort. The author of the cumulation provision is very interested in the textile and garment industry.

He's interested in all industries, but he's very interested in that. And I was trying to give the Caribbean a little bit better break.

Mr. **Thomas**. Mr. Chairman, I appreciate that and am sympathetic. But as we noticed in the Free Trade Act with Israel, and in being much more sensitive in dealing with Canada, that when we look at steel and textiles and bathing suits, we sometimes forget olives, Mediterranean products, tomato paste, and others. And that there are some areas of this country which are 100 percent dependent on those agriculture commodities.

It may be a very small percentage in the total picture of trade but it can be in fact, a devastating economic blow to a relatively small segment vis-a-vis the entire U.S. trade picture, but obviously, absolutely critical to certain areas of the country.

And I am just trying to get some feeling. As the Trade Representative indicated, he wasn't supportive of this, but he wasn't in opposition to it. And I was trying to get some idea of a projection forward as to whether or not he thinks this is something we would have to be concerned about in the foreseeable future, or whether, after we've done our diversifying, and we've gotten them into more mediterranean products, and they do have a good import line, that I'll have to worry about it then.

Because I want to know when I've got to shift into gear.

Mr. **Guarini**. If the gentleman would yield, maybe we should diversify our own agricultural system.

Mr. **Thomas**. I would tell the gentleman that we have, and that's the reason that we focus on wheat and feed grains in the ag committee, but things like pistachios, and almonds and raisins have to fight for every bit of consideration, because they are a significant factor in balance of payments.

Mr. YEUTTER. Well, Congressman Thomas, I've just gone back and re-read the actual language that is in Section 8. And I guess after having done so, my feeling is that we probably ought to make sure that the lawyers on the committee and the lawyers who administer the countervailing duty laws and anti-dumping laws in Commerce fully understand what the intent is and the implications are.

Maybe they already do. But you have raised some red flags, and perhaps we ought to make sure that there is a full understanding of what precisely that provision will do.

Chairman GIBBONS. Well, let me assure Mr. Thomas that I meant to make it a lot easier for the Caribbean to export into the United States and not get tripped up by some insignificant amount of export that when cumulated with a lot of other imports triggered them and kicked them right out the door again.

We spent a lot of time and a lot of effort trying to get the Caribbean to diversify and do other things, and as soon as some of them started, the first thing that happened to them is they got kicked right out the door by cumulation.

As I say, cumulation is a relatively new concept in our whole provision. And I meant as the author of that provision, to make it a lot more difficult to kick these small countries just because they had a small amount of contribution.

Mr. YEUTTER. Well, as Congressman Thomas will remember, that is an issue that was raised with us on our trip over and over again. So it is an important issue to the CBI.

But it is important also that we do it right.

Mr. THOMAS. Thank you, Mr. Chairman.

Chairman GIBBONS. Staff tells me, and I would like to help Mr. Thomas understand this—I'd forgotten it—the fast track provision in the omnibus bill is not affected by this at all, Mr. Thomas.

Mr. THOMAS. The 201 section. But when you come to injury, you obviously have to look at it.

Chairman GIBBONS. So let me make it clear, with no apology, I wanted to make it much more difficult to toss out some small production from the Caribbean just because it happened to cumulate with somebody else's production.

Mr. THOMAS. Mr. Chairman, just to clarify it, because I do understand the differences in the relationship.

But my concern of course is that as you determine injury, you do look at all aspects. The cumulation portion does not apply to that.

But obviously, if this becomes force of law, when the ITC begins to examine, at least the lawyers are going to have to determine whether they mentally begin to separate.

And it seems a little odd then that if in one area of the law you have to keep them completely separate and the other you examine them, there is going to have to be some resolution between working it one way in one area and another in another.

My concern is that to the degree your legislation becomes law, your approach is the one that is going to survive.

Chairman GIBBONS. The clear thrust of my proposal is to give the Caribbean a definite preference; no apology.

Mr. THOMAS. I have no problem giving them a preference at this stage. I do have some concern when their ability to continue to import occurs at the expense of an industry which certainly is not nationwide but vital to certain geographic areas of the United States.

Chairman GIBBONS. I understand. I have a lot of that kind of agriculture myself, and they're probably ready to throw me out.

Mr. THOMAS. Thank you, Mr. Chairman.

Chairman GIBBONS. Mr. Crane.

Mr. CRANE. I have a question that properly should be addressed to both of you. The Inouye provision that was inserted in the 1988 continuing resolution was opposed by the Administration on trade policy grounds as I understand it.

But my further understanding is, that the provision has not been fully implemented; is that correct?

Mr. NUTTALL. Congressman, that is correct. The interpretation we had of that legislation is that we had a requirement to issue regulations which we have gone through the process of doing; but that it provided neither the authority nor the funding to operate such a program.

Mr. CRANE. You indicated earlier that the provision would put additional burdens on the Ag Department; is that correct?

Mr. NUTTALL. If we had the authority or funding to do it, the Department of Agriculture resources would be required. If it was 400,000 tons a year, for example, the subsidies involved would of course depend on the relation between domestic and world prices.

But that could be $130–$140 million a year; that much.

Mr. CRANE. How do those subsidies work on a re-export program? I mean, if a refiner is buying imports of sugar at U.S. prices he's refining it and turning around and immediately re-exporting it.

Mr. NUTTALL. The difference between that U.S. price and the world price would be passed on through the refiner to the exporting country through a series of paper trails and whatnot.

But the idea behind that legislation, or the intent, was to pass on the benefit of a higher price for the exported sugar, to the exporting countries.

So it would move down through the refiner to the exporting countries. And presumably you would want to make sure that the exporting country got the benefit of that subsidy.

Mr. CRANE. I see, and that is where the additional burden falls on agriculture?

Mr. NUTTALL. That's correct, Congressman.

Mr. CRANE. Clayton, there are a variety of criteria, I know, that the President has to adhere to in designating a country as a CBI country. And that includes amongst other things, whether it is communist and has it expropriated American property in the past or currently?

What mechanism do we have to monitor compliance?

Mr. YEUTTER. Well, as you know, we have a CBI coordinating committee within the government that is chaired by USTR, and we have two subcommittees—this is all done on an interagency basis with USTR as the chair—then there are two particular subcommittees that get involved in more specific elements of the program.

So that is the basic mechanism for evaluating, on a continuing basis, the performance of CBI.

Mr. CRANE. What is the procedure for terminating participation?

Mr. **Yeutter**. Oh, my goodness, do we have any lawyers here who could answer that? I'm sorry, I don't know. But perhaps we should just answer that for the record.

Mr. **Crane**. Okay. There are anywhere from five to six countries, I think, eligible. And in fact, President Hoyte stopped by my office yesterday. And I know Guyana is interested in participating.

And I talked to folks from the State Department a couple of weeks ago. They insist that Guyana now meets the criteria.

What is your view on Guyana's participation?

Mr. **Yeutter**. We have a process underway to evaluate their candidacy right now, Congressman Crane, and we will have recommendations going to the President on that issue very soon.

I met with President Hoyte also while he was in Washington a few days ago, and clearly, there are major changes taking place in that country.

He has put his own personal imprimatur on what is transpiring, and provided a great deal of personal leadership in changing the economic modus operandi of that Nation.

I don't want to preempt the final decision by the President, but I would say, Congressman Crane, that there certainly seems to be strong support for the designation of Guyana developing within the Administration.

Mr. **Crane**. In meeting President Hoyte for the first time, he is soft spoken, cultured, educated. I could not visualize him functioning in a totalitarian capacity.

One of the concerns, of course, about Guyana in the past is that they have had that long-standing one-party control. And it's reinforced by the military government, jobs, everything else.

But I'm curious as to how their system works down there? Is President Hoyte in effect Queen Elizabeth and the Prime Minister Green Margaret Thatcher under their system?

Mr. **Guarini**. Well, they got their independence you know in the early '60s. And since the Rosenbergs had taken over, as I understand it, that woman Mrs. Rosenberg was a Marxist and a communist.

And although he is—and I had a meeting with him, and I was very impressed with him; I share that sentiment that you had—he is still a member of the major party that had always prevailed down there, except they did have elections that he was elected in in 1985.

Mr. **Crane**. Well, is the President essentially a figurehead and is the prime minister the real power in the system?

Mr. **Guarini**. No, no, I believe he is the power.

Mr. **Yeutter**. Mr. Crane, we have somebody from the State Department here, so I was suggesting that they came up. We don't seem to be getting much movement back here in the audience for some reason. We have a reluctant witness.

Mr. **Guarini**. They have a good relationship with England today, I understand.

Mr. **Crane**. Well, the reason I posed the question is, I am curious whether President Hoyte, who comes across certainly as a real gentleman, soft spoken, well mannered, is really in control? I think I met their Prime Minister down in Barbados at a conference, and if he's the one I have in mind, he's abrasive and, in fact, I heard from some sources that there is a question as to how strong a Marxist-Leninist tinge he has.

Mr. YEUTTER. My impression, Congressman Crane, is that President Hoyte is the chief decision-maker in that country today. But let me ask our State Department friends to answer the question.

Ms. SLATTERY. My name is Janina Slattery from the State Department. I am not the Guyanese desk officer. If you would like to have a discussion about the specifics of the government's organization, we would be happy to have someone meet with you.

But just to answer some of the specific questions: President Hoyte is elected by popular vote. He is the—we'll check this out specifically—but he holds the titles of president and prime minister.

Mr. CRANE. Oh, then what is Mr. Green's title?

Ms. SLATTERY. Hamilton Green is one of the ministers in the government. So he is in the same party and in Hoyte's government. But Mr. Hoyte is in charge of the party and of the government.

Mr. CRANE. I see. Okay, well, that's reassuring. I may be mislabelling the fellow that was at that Barbados conference, but I think it was Green.

Mr. GUARINI. Well, I think it should be clear, if the gentleman would yield, that the same party has been in control all the time; and there is only one major party.

It is not that he had won out in the election of the party. It is really a one party system down there. It is just that this man has different ideological beliefs, and wants to make new relationships with other world powers.

And we do believe that he is a stripe different than his predecessor, so there is great hope in this man being a new type and style of leader.

Mr. CRANE. Well, I knew that reforms took place, and I was throwing the bouquets, in fact, to President Hoyte for the modest reforms that have taken place down there.

I just wanted to make sure that that wasn't misplaced, and that in fact President Hoyte is the one who is, not just the official president of the country, but the man who has the clout as the chief executive.

Still, there are conflicting reports—now I know State is reassuring on violations of human rights, and the guarantee of freedom of the press and so forth—but there are vague, conflicting reports from groups like Amnesty International as to how faithful the Guyana government is in actually living up to the observance of human rights, and guaranteeing that there is a free flow of printer's ink for the dissenting press.

The government itself I hear does have the only radio station, and it has one of the newspapers down there that never has a shortage of printer's ink.

So are you folks totally satisfied that they meet the criteria?

Ms. SLATTERY. Well, I think it is fair to say that there is no place in the world which doesn't have some problems.

Clearly, there are some problems in Guyana as well, but we have seen a great deal of progress, both in terms of openness of the economy, and of the political system.

Our ambassadors have reported that there has been a great improvement in the dialogue and the ability of the opposition and dissenters to express their views; and that it has become a much more open system politically.

We see very good progress in that direction.

Mr. **Crane**. All right, very good.

The only other question that I have of Clayton is, are there other countries that you have under consideration besides Guyana right now?

Mr. **Yeutter**. To my knowledge, Mr. Crane, that is the only one that is really a front burner issue at this time.

There are always some where there are signals being transmitted from time to time, but I don't believe there are any others that are under serious consideration.

Mr. **Crane**. Very good. Thank you all, and I yield back the balance of my time.

Chairman **Gibbons**. Mr. Frenzel.

Mr. **Frenzel**. Mr. Chairman, I suppose this will be the last time that we will be seeing our friend the Ambassador, at least this year.

Hopefully, we will be seeing him in the same or other incarnations in the future. But I want to say what a number of other members of the panel have already said, and that is, Clayton, I just cannot imagine a better job being done under more adverse circumstances than you have performed.

I don't imagine that since Dr. Kissinger anyone has logged more miles for the United States, and you had to fly commercial while he had his own plane.

Mr. **Yeutter**. That's true; it does make a difference.

Mr. **Frenzel**. No USTR has had more balls in the air with a couple of free trade agreements; four years of arm wrestling the Congress on a trade bill; getting the Uruguay Round started; and all of the attendant nearly mandatory 301s which greeted you when you came to town.

I for one am terribly grateful. I always feel good about this country when I think of its ability to attract public servants who come and accept monumental reductions in remuneration and do the kind of things that you've been doing.

I just want to tell you that I personally am enormously grateful for what you and your family have done. Because their privation has been part of your success.

This committee has always sort of looked on the USTR as its agency. We claimed that a long time ago, and we were going to claim it after you left. But you are one of the children of which it is most proud. We really thank you for your work.

Mr. **Yeutter**. Thank you.

Mr. **Frenzel**. My question is, we have had a number of criticisms of the Pickle-Gibbons bill, and we will have a lot more in the future. But I think Sam has described it pretty well.

There has been frustration in Congress that the bill that President Reagan presented to us was not the bill we gave him back on CBI I. And while CBI I was a good start, it has not developed all of the things that we hoped at the time that it would be able to develop.

As the bill went through this committee and the Congress, we plucked out things which were the things that the Caribbean does best, and denied them free access.

And Sam and Jake and others of us, Frank Guarini particularly—and I join Sam in congratulating him for his work on this—have worked hard to try to find ways that we could advantage the Caribbean.

And the sponsors of this bill are not apologizing for that. We're not embarrassed. We want to give them a break. We have a lot of good reasons for it. There are national security reasons. There are humanitarian reasons. And there are solid commercial reasons why that area should be developed and become a bigger market for us.

And so we want to do well while doing good and protecting all of us. And so we have asked for things to be given to the Caribbean that we don't give to others.

But we don't want to disrupt the GATT, and so we welcome your advice on those matters.

With respect to this eastern Caribbean problem which you raised, we're groping for a way to make it easier for the Caribbean to do that which was denied to it in CBI I. I wasn't smart enough to be a sponsor of the bill, but I would claim to be a promoter of it.

There is nothing in the bill that is perfect. And if we could find another way to do something, which maybe is not quite as discriminatory as you have suggested it is. Maybe there is a way to reassure the U.S. industry.

I must tell you that U.S. industry has been very difficult to reassure. While its employment and profits swell, it tries the harder not to be reassured.

I think the intention of the people who structured that provision was not to take business away from Americans but to take business away from other producers: the large eastern country, Far Eastern countries particularly. Because we were hoping that these conversions would come in at a different level, they weren't going to disrupt American producers.

And so what we would like to have is to have the counsel of your Department on how we can tune this part up a bit. If it doesn't pass muster now, we would like some help in making it do so.

And I want to defend Sam Gibbons on cumulation as well. I would like your comment on that, too. This committee resisted cumulation when it was dumped on us over a period of years by the Senate.

We have never been jumping up and down about it as a good way to administer justice and to administer a trading system.

I think there is every good reason in the world for us to be willing to waive it for minuscule producers, to whom we are trying specifically to give a special advantage.

I'm reluctant to talk about ethanol, because we've already asked you for a position on that. We of course will be getting an ITC report by the end of February. So I don't think we need to discuss ethanol any further.

Maybe you could comment a little further on the Super 807, and on cumulation.

Mr. YEUTTER. I would be happy to do so, Congressman. After all the accolades go both ways. This is an executive branch child who couldn't have picked a better parent than this subcommittee.

It has been a mutually reassuring and satisfying experience.

With respect to the rule of origin issue in the eastern Caribbean, as you know—all of you know—we've been doing a lot of work on the rule of origin issue in a variety of contexts, one of which was the United States-Canada agreement, of course. It was a major area of interest in that agreement, a much bigger issue there than it is here.

And we need to continue to work on that question in the broader context, as well as in the CBI arena. And it may well be, as a result of all that activity, that we can come back and say some more things to all of you on that subject, and on the broader question of substantial transformation.

That's an issue that we as a Nation must deal with continually. So I would be amenable, and more than willing, Mr. Chairman and Mr. Frenzel, to come back at a later date, or make sure that the executive branch comes back at a later date, with any thoughts they may have on what, if anything, we should do to change substantial transformation rules, and what if anything we should do on the rule of origin, here and elsewhere.

And perhaps we ought to just leave it at that at the moment.

With respect to cumulation, I likewise concur that this provides us an opportunity in this legislation to do something meaningful for the CBI. It is hard to find provisions that are truly meaningful for the CBI as an enhancement to the original CBI program.

We have all been struggling with that. That is what this whole piece of legislation is about. And certainly, this is one that is perceived by the CBI countries to be tremendously meaningful.

As I indicated in my colloquy with Congressman Thomas, this came up over and over again when we were visiting the CBI countries. And that is why I believe it important that cumulation be in this legislation, and important that we bite bullets domestically if need be in that area and retain it there.

And that gives me the opportunity to embellish those remarks slightly by commenting on the desirability of this legislation generally.

As you pointed out, Congressman Frenzel, we have had the original CBI legislation, which has had rather mixed reviews everywhere, both in terms of the content of the legislation, and the success record thereof in implementation.

I believe all of us feel that the CBI basically needs a shot in the arm at this point. It needs a psychological uplift.

That is very important to those CBI countries who want to believe in the program and want to see it as a means for additional economic development.

And it is important to the relationship of the United States with those countries, the geopolitical relationship as well as the economic relationship.

And that's why I made comments, Mr. Chairman, about my approbation of the legislation, looking at it in the aggregate. Because I really believe it is important for this country to pass CBI enhancement legislation.

We can debate about what the content should be, and how many of these provisions should stay and how many should be changed or eliminated. But it seems to me that we as a Nation would send a very positive signal through that part of the world if we pass a bill that has some meaningful advancements for them.

It would give the proponents of the CBI program, and the proponents of economic growth in those countries, a basis for optimism. And right now, there is a great deal of pessimism in that part of the world as a result of their economic loss. Some of that will be exacerbated by the recent hurricane.

And overall, Mr. Chairman, I would hope that this legislation could be moved forward and become law.

Psychologically, it will help the CBI program a great deal. And that may be even of greater value than the economic benefits, though we obviously hope the economic benefits will be significant as well.

I don't know that I have a whole lot more to add on the 807 activity, Congressman Frenzel; I think we have covered that pretty well.

There are very difficult tradeoffs in that area. And I suspect as this legislation is unfurled that we will want to examine further some of the tradeoffs here, and maybe do some of that differently. And you should certainly get testimony from some of the domestic industries before those particular provisions are finalized.

There are a variety of ways to do things with the 807 program, as you know. The question is picking the best menu.

Mr. **Frenzel**. Okay, thank you very much.

Mr. Chairman, I yield whose ever time I'm now using.

Chairman **Gibbons**. Mr. Pease is the man whose time was encroached upon.

Mr. Pease.

Mr. **Pease**. Thank you, Mr. Chairman.

I am sorry I wasn't here for your testimony, Mr. Ambassador. And I have taken the opportunity to read it while the other questioning was going on. As usual, it is excellent testimony.

I will not add to the praises that have been heaped on you today. Of course, you know that I fully concur in all of the comments that have been made this morning about the excellent services provided to your Nation.

Mr. Chairman, I was intrigued with the rather extensive conversation that went on before about Guyana and who is really in charge down there, and whether it is a legislative body dominated by one party.

Mr. Crane I think would be sympathetic to problems of people involved in legislative bodies dominated by one party.

Mr. **Crane**. Profoundly.

Mr. **Pease**. Mr. Ambassador, I agree with you it would be good psychologically to pass this bill as soon as possible. I wonder since we're just going into conference very soon on the textile bill, whether we might have a twofer here, combine the CBI enhancement with the textile bill, so that in case the textile bill passes, we could have something that you could be enthusiastic about in the bill.

Mr. **Yeutter**. Mr. Pease, that is not one of the best ideas you have had this year.

Mr. **Pease**. A question and a comment.

In our relations with Caribbean countries, and discussion about enhancing their economies, has it been a factor at all to discuss with them the problems of deforestation?

In my part of the country, where we have had record heat this summer, we are very conscious of a greenhouse effect, and the amount of land that is being lost in Brazil every year to the clearing of land.

I am sure it is a lesser problem in the Caribbean, but has that come up at all in any discussions that you are aware of?

Mr. **Yeutter**. It has never come up in any that I have had, either down there or with those countries, Congressman Pease.

Mr. **Pease**. Mr. Chairman, in a bill that purports to help out the Caribbean countries, I think we want to be careful about adding requirements that they have to reach before getting the benefit. But certainly deforestation is becoming more and more of a world problem.

It affects not only those countries most severely, but also, the rest of the world.

I would like to comment on one part of your testimony where you say in relation to our AID program, helping out the progress of economic development, prospects for the future appear dim because there has been a reduction in the kind of AID programs that might help down there.

Again, Mr. Chairman, this is not in our subcommittee's jurisdiction. But I have been quite concerned for several years about the direction of our foreign aid policy.

Foreign aid has been going up, but the aid which is truly developmental aid has been going down. And we now provide considerably less than $2 billion a year to the 60 or more countries around the world who are the poorest of the poor countries, who in the past were the focal point of our foreign aid program.

And I just hope that something can be done to reverse that trend. Because as the Ambassador points out in his testimony, our AID program can be very helpful, along with private sector initiatives and tariff reductions and others in getting real, genuine economic development going there.

Thank you very much.

Mr. **Yeutter**. I certainly share that general assessment, Mr. Pease.

Chairman **Gibbons**. Before I recognize Mr. Pickle—I am going to recognize him, but I will give him a little chance to get briefed here before he starts—the last panel we have today consists of the Royal Caribbean Cruise Lines, Norwegian Caribbean Lines, Carnival Cruise Lines; and some hotels.

Are you familiar with what they are advocating, and does the Administration have a position on their point of view?

Mr. **Yeutter**. I am generally familiar with what they have been advocating, Mr. Chairman. Of course it is conceivable that they may propose something today that would be different from what has been discussed earlier.

And I suppose the general reaction has been that although we would clearly like to see their business and all other tourism businesses boom, I emphasized that in my earlier testimony, that it does become difficult to justify particular tax benefits in that area, since a lot of that benefit, if you will, flowing back to the private sector, would go to a rather affluent part of our population, and obviously has some implications for our tax revenue situation as well.

So there has never been—although this is much more of a Treasury issue than a USTR issue—I think it is fair to say that there has not been a lot of enthusiasm for those proposals for that reason, that this has not seemed to be the most efficient way of advancing the cause—the most tax efficient way of advancing the cause of tourism in the CBI.

Now if those folks can make a persuasive argument to rebut that, why, we'd certainly listen, and I'm sure the Treasury Department folks would listen too.

Chairman GIBBONS. But so far the Administration has no position on their——

Mr. YEUTTER. I do not believe we have ever taken an official position. I think it is fair to say that the general concept has not been greeted with a lot of enthusiasm thus far.

Chairman GIBBONS. All right. I don't know whether Mr. Pickle has any questions or observations. But before I recognize him, I want to pay tribute to him.

He has been a real mover from the very beginning on this matter of the Caribbean initiative. And I could count the bruised ribs that I have received from him saying, when are we going to get that bill moving, Sam.

Jake Pickle is a real believer, and a real persistent, effective worker.

Mr. YEUTTER. And he did a marvelous job of chairing our trip to the Caribbean a couple of years ago.

Mr. PICKLE. Mr. Chairman, when are we going to get this bill moving?

I thank you for recognizing me. I am chairing another subcommittee at this time, but I wanted to come over and express my appreciation to you for holding this hearing.

I also wanted to express my appreciation to Mr. Frenzel and Mr. Guarini for the interest they have shown in keeping interest focused on the CBI.

Mr. Ambassador, it is good to have you here. And I do recall our trip to the Caribbean. I, at least, approached this task that the chairman assigned us with some skepticism, wondering, should we really go forward with the CBI?

I came away convinced that the continuation and strengthening of CBI is in our national interest. Our subcommittees met and advanced our recommendations because we believe it is in our national interest, and because the CBI nations are expecting action.

Now, we have been held hostage, literally, because of the trade bill, and the United States-Canada FTA legislation. But those two issues are now out of the way.

It would seem to me that now is time to advance H.R. 3101. Now, we might have some differences on some provisions. The Chairman has recommended two or three items that are somewhat controversial.

Whatever opposition there is, we ought to make a decision on and advance a proposal, because I think the CBI nations are expecting us to show leadership on this issue. I would hope we can move forward with this legislation.

I would hope, Mr. Chairman, that there might be some way the Trade Subcommittee could advance this bill so that Chairman Rostenkowski can have it ready for action this fall, or at least ready for an early start next year.

We have promised that to the CBI nations. I think they have every right to expect it. And though we may differ, Mr. Ambassador, in some areas—sugar or even the ECS provisions—it is understandable.

But, I would say to you, we are making exceptions because we think it is an exceptional situation. The CBI nations should get some advantage. They are in our front yard, not our back yard.

So I would hope that whatever differences we have, we could resolve them and advance this bill, because I think it is the right thing for our Nation.

I thank you, Mr. Chairman.

Mr. YEUTTER. Mr. Pickle, I am in general concurrence with everything that you said. I fully support the view that this legislation ought now move forward in a very timely way.

The big trade legislative issues are behind us. It would seem to me that people ought to be able to concentrate on this now.

And even though there are some differences, I indicated in my testimony earlier this morning that our overall view toward the legislation is very positive.

Chairman GIBBONS. Well, I would be willing to schedule a markup session on this bill as soon as the staff can clear it with the chairman of the full committee, and we will go ahead.

I think I know where the votes are. There are obviously going to have to be some compromises. So if you would alert the technical people on your staff, my staff, I don't mind working right up until adjournment time to get it done.

All right, thank you, Mr. Ambassador, for your excellent service. I'm not going to assume anything until the election is all over.

Mr. YEUTTER. Well, thank you, Mr. Chairman.

Chairman GIBBONS. I hope that if the Democrats are elected, and I fully expect one to be, that he would be smart enough to ask you to stay over.

You are a service to your country. I hope you would seriously consider it. We need you. I can't think of a person from either point of view—the Democrat or Republican point of view—who could do a better job than you have done, and I think will continue to do.

Mr. YEUTTER. Thank you.

Chairman GIBBONS. You put the country and the economy of the world ahead of politics and personal ambitions, and you are to be highly commended.

Mr. YEUTTER. I consider that a high compliment, Mr. Chairman; I appreciate that. And I really appreciate your personal kindnesses and courtesies and support and leadership all during the time.

I was just going to close by suggesting to Congressman Pease that if he could find a propitious way to move that textile bill off the agenda, you'd have a lot of time to deal with this issue.

Chairman **Gibbons**. You are so right.

All right, fine, we will go to the next panel. Everyone is here at the table with the exception of the American Fiber, Textile, Apparel Coalition. And unfortunately, they are unable to appear this morning, but will file a statement.

I am sorry they are unable to appear, and I always enjoy their testimony, and always enjoy their contribution to our deliberations.

So we will go first to the Caribbean Textile and Apparel Coalition.

STATEMENT OF JONATHAN RUSSIN, CARIBBEAN TEXTILE AND APPAREL COALITION

Mr. Russin. Mr. Chairman, my name is Jonathan Russin, and I represent the Caribbean Textile and Apparel Coalition, which is a group of manufacturers in the Dominican Republic and other parts of the Caribbean, along with the owners of industrial parks that have been active in creating industrial free zones, which are one of the major ways in which a number of the Caribbean countries have attempted to respond to the initiatives that were created by CBI I.

I have had the privilege of being active in trade and investment matters through my law office in Santo Domingo, Kaplan, Russin, Vecchi and Heredia-Bonetti. And that has given me the opportunity to see, from the perspective of a couple of decades, some of the efforts that have been made by the United States and the way in which the Caribbean has responded to them.

The position that we would like to advocate today, Mr. Chairman, is to express our concern with respect to the Textile and Apparel Trade Act of 1988.

I noted, in hearing the testimony of Ambassador Yeutter and the comments from the subcommittee members, that there does not appear to be a great deal of concern expressed for the effect of that bill on the Caribbean nations.

It appears that the gentlemen on the subcommittee have an understanding of facts that may not be apparent to the rest of us who look at that bill with a great deal of concern.

Chairman **Gibbons**. Well, I really think the only reason we haven't talked about that bill a heck of a lot here, not because it isn't on our mind, but because we think it'll just never become law.

I am not sure that that is an appropriate assumption. But it seems to be, to quote a distinguished leader of the Congress, a 100 percent political operation, that it's got nothing to do with reality.

Some Democrats think it's good politics, and some Republicans think it's good politics. That makes me believe it's not very good politics. When both sides agree it's good politics, there must be something wrong with it.

But I don't know—I don't want to say to the Caribbean people that that bill will not become law. I don't know where the votes are in all of this, and I don't think anybody else around here knows where the votes are.

We are just all assuming and hoping that the President's veto will be sustained. But God only knows what will happen around Congress.

Mr. Russin. Well, then, for the brief time that is allotted to me, I would like to address that question, because we see it as having disastrous implications.

Chairman Gibbons. There is no doubt about that.

Mr. Russin. And we see your bill as being the single, only exception that is on the menu before this Congress that would create some relief, at least for the CBI nations on that score.

Mr. Congressman, I would like to express some concern for the remarks that were made earlier with respect to the fact that the CBI has had remarkably little effect, and that many persons are disillusioned, and that the bill requires additional amplification.

We certainly are in support of CBI II. But I would draw the attention of the subcommittee back to the fact that in the Dominican Republic, which is the area in which I have spent a great deal of time over the past 20 years, the growth of industrial free zones predates CBI by some substantial time.

It goes back to 1967. And that legislation took hold very slowly. It takes a great deal of time before the perception is created that a particular environment may be—may give those kinds of conditions that are needed in order to attract foreign investment from overseas to the area.

Over the years, in the '70s, one by one, American companies began to come to the Domincan Republic. They began to see that there was an abundant labor supply.

I would point out, I am very pleased by the remark by Congressmen Guarini to distinguish the Domincan Republic and Costa Rica as more advanced than many other Caribbean nations.

But I would point out to the subcommittee that even today there is more than 50 percent of the working population of the Domincan Republic which is unemployed or underemployed.

The attention that has been focused on the Caribbean by CBI is very much needed and as far as I can see, will continue to be needed.

The work force there is trainable. American manufacturers have learned that. The Caribbean governments are learning that it is important to have stable rules of the game, not to change the investment incentives and other rules that are applicable in the local environment.

In the case of the Domincan Republic, we have now had more than 20 years of Democratic, freely elected governments. And we have been blessed by not having any significant civil unrest.

Now, my view is that CBI I is a little bit underestimated when one looks at the statistics only. It seems to me that CBI I also had an important psychological effect in directing the attention of the Congress and the Executive to the Caribbean.

That has been noticed by American manufacturers who are considering it. When you add to that the GSP graduation efforts with respect to the Far East, there has been a noticeable shift of attention, and I believe that some of the original purposes of the bill are now being seen in ways that don't measure in the statistical reports that we have.

With respect to the statistics, I would like to draw your attention to the third page of my remarks where there is a table which shows, between 1983 and 1988, what the growth rate has been in industrial free zones in the Dominican Republic.

I am going to use the statistical numbers now. The number of employees went from 22,000 to 80,000 in that 6-year period. And we see that number now increasing in the same kind of proportion.

The momentum has started. The number of companies—the law was passed in 1967, but between 1983 and 1988, we have doubled the number of companies, almost doubled, from 110 to 212 incorporated ventures that are in industrial free zones.

The amount of exports has risen from 181 million to 405 million. Of that amount, about 60 percent are represented by textiles.

I am sorry that I don't have the figures that break textiles out directly. But textiles are a significant—they are the most significant part of the general production that has gone on in the industrial free zone.

Chairman GIBBONS. You're talking about garments rather than textiles, aren't you? You're not weaving cloth there?

Mr. RUSSIN. It is the needle industry, yes.

Chairman GIBBONS. The needle industry.

Mr. RUSSIN. This increase in the success story of the industrial free zones has occurred just at the point where the sugar decline is crossing the other way on the graph.

None of us are sure what would have happened if that gap wasn't filled, or at least partly filled, by IFZ exports.

Returning to my point about nonquantifiable impact, I think in the literature that I have seen on the effects of CBI, little mention is made of four very important nonquantifiable changes that are occurring.

First is the imposition of factory discipline. We are talking about taking unskilled labor, and teaching them when they go into a factory that they have to punch a time card on the way in and on the way out.

A social security contribution is taken out of their wages, and they know to the penny the amount of the social security contribution that they're making.

They have to file an income tax return; that in order to be excused from employment, they have to have a medical certificate; that it is a five-day work week from 9:00 to 5:00.

This transformation of the labor force, and the education and training that goes into it is totally paid for by the private sector.

We know in reading the debates each year on the AID legislation how much of an effort the United States is making in education generally in the Third World. This is a phenomena which is being paid for out of the commercial production that has been attracted, to some substantial extent, in my thesis, by the CBI I.

The second area that seems to me to be undermentioned is the impact that it is having on female employment. In the Dominican Republic, the figure is 70 percent. 70 percent of the new jobs created in the industrial free zones are held by women.

There is a direct impact of female employment because their income goes more directly than the income of male employees into housing, nutrition, child education.

All of us also know that in terms of female employment, the introduction of the women into the commercial work force is something that is generally needed by modernization. It is one of those things that will begin to change the Third World.

The third item that I find unmentioned is family planning. The population problem in the Dominican Republic and in other areas of the Caribbean is not insignificant. And by changing a subsistence agriculture population into a population which has industrial employment, everywhere in the world where this has happened, there has been a reduction in family size.

And if one were to ask what is the most effective way in which family size reduction has come about, it has been through the general phenomena of industrialization.

The final point with respect to the impact of the creation of industrial free zones is that it will have again an unmeasurable but important impact on immigration to the United States.

One out of every ten Dominicans, according to a State Department figure, alive today lives in the United States. The anthropologists who have looked at this question indicate that the number may be closer to one out of every five Dominicans living in the United States.

The Dominican Republic is a beautiful island. Good climate, and a stable democratic government. Those people wouldn't be living in the United States, if they had adequate employment opportunities in the country of their birth.

CBI I didn't grant any trade preferences as far as the garment industry is concerned. In the original points that we were going to make is that the phenomena of increasing quotas has now become of concern in the Dominican Republic.

Today, shirts, blouses, blue jeans, trousers, shorts, skirts, are all under quota. It was our understanding that the multifiber agreement was intended to deal with large exporters who had very positive trade balances with respect to the United States, or the other way around; we had negative balances with respect to them; and not to affect infant industries such as those growing in the Dominican Republic.

The United States runs a positive trade balance with the Dominican Republic. In fact, we export twice to the Dominican Republic what we receive from the Dominican Republic. We've cut the sugar allocation, and we are now limiting the amount of textiles that can come from one of the few growth areas, industrial free zone plants in the Dominican Republic.

That was the point that we were going to make in December when we originally wanted to testify before your committee. Now our concern has shifted to the Textile and Apparel Trade Act of 1988.

I hope that your sanguine remarks are going to be carried out in reality. It would be disastrous for the Dominican Republic and for the Caribbean countries if that prediction should prove wrong.

I would like to close by noting that the CBI countries are relative late-comers as textile exporters. They're late-comers precisely because the industrialization process is only now beginning to take hold in those countries.

The textile provisions contained in CBI II recognize the exceptional circumstances affecting the CBI countries, and are designed to give a needed boost to the small economies of the 22 certified Caribbean nations.

I respectfully recommend favorable consideration of the bill by this committee.

[The statement of Mr. Russin follows:]

STATEMENT OF JONATHAN RUSSIN BEFORE THE SUBCOMMITTEE ON TRADE, COMMITTEE ON WAYS AND MEANS, U.S. HOUSE OF REPRESENTATIVES,

THURSDAY, SEPTEMBER 15, 1988

Mr. Chairman, it is a privilege to appear before you and the members of your committee to support the "Caribbean Basin Economic Recovery Expansion Act." I represent the Caribbean Textile and Apparel Coalition, which is an informal association of textile garment manufacturers and industrial park owners who are active in the Dominican Republic and other parts of the Caribbean. In addition, I represent Kaplan Russin Vecchi & Heredia Bonetti, the Santo Domingo office of a multinational law firm which I co-founded in 1969. I have spent over two decades working on investment and trade issues in the Dominican Republic and other parts of the Caribbean, and I wish to address you from the perspective of the garment and apparel exporters of the area.

Our position can be summarized briefly. The recent passage by the House and Senate of the Textile and Apparel Trade Act of 1988, if signed by President Reagan, will have a crippling effect on the efforts of the countries of Central America and the Caribbean to modernize their economies through the creation of export industries, of which the garment and apparel sector is of prime importance. The textile provisions in the bill before this Committee contain the only initiative in this Congress which can exempt the Caribbean Basin nations from the suffocating effects which will result from promulgation of the Textile and Apparel Trade Act of 1988.

Background.

Twenty one years ago the Dominican Republic Congress passed legislation which created incentives for the construction of industrial parks within export free trade zones. The purpose of the industrial free trade zones (IFZ's) was to attract foreign investment in sewing and assembly operations which would provide employment in an economy where the levels of unemployment and underemployment are estimated in excess of fifty percent of the employable population.[1] The first sewing and assembly operations came timidly. Binney & Smith opened a plant to assemble artists paint brushes. Warner and Maidenform came to stitch brassieres. Gradually, during the 1970's, the Dominican Republic became known among manufacturing circles in the United States as a location with abundant labor capable of being trained in a variety of operations, where the rules of the game for IFZ manufacturers are reliable, where freely elected democratic governments have been in power for more than twenty years, and where political unrest has been minimal. Slowly, the number of IFZ companies, the size of the labor force, and the variety of products has increased.

CBI-I.

As a result of these early efforts, the Dominican Republic was fortuitously well poised to take advantage of the new attention focused on Central America and the Caribbean by the adoption of the Caribbean Basin Economic Recovery Act of 1983. CBI-I has signaled to United States manufacturers the message that both the Congress and the Executive branch of the United States government regard the Caribbean Basin as an area of special geopolitical interest to the United States. It conveys the message that the democratic governments of the Basin will be granted trade preferences through special access to U.S. markets as a way to support their infant but growing export industries. CBI-I did not grant trade advantages to the apparel industries, but its impact in focusing United States interest on the Basin economies was not insignificant.

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[1] American Embassy Santo Domingo, "Foreign Economic Trends and Their Implications for the United States, June 1988, Dominican Republic" p.7.

In the Dominican Republic CBI-I has stimulated the growth of IFZ export manufacturing enterprises. The following chart demonstrates this impact.

Dominican Republic Industrial Free Zones
EMPLOYMENT CREATED, COMPANIES ESTABLISHED, TOTAL
EXPORTS AND FOREIGN EXCHANGE EARNINGS

Year	Employment	IFZ Companies	Exports (US$ millions)	Foreign Exchange Earnings (US$ Mil)
1983	22,272	110	181.2	61.9
1984	27,126	121	195.7	50.0
1985	35,720	144	214.4	52.1
1986	51,231	158	246.2	83.5
1987	72,530	198	363.1	96.4
1988	83,000	212	(*)	(*)

(*) Data unavailable
Source: Corporacion de Fomento Industrial, August 1988.

- Between 1983 and 1988 the number of employees directly employed in IFZ industries increased from 22,272 to 83,000, an increase of almost four hundred percent. The total of direct and indirect employment generated by these positions is estimated at 170,000 employees for 1988.

- The number of companies operating in free zones has almost doubled from 110 in 1983 to 212 this year.

- The total value of IFZ exports increased from US$181.2 million in 1983 to US$405 as projected by the American Embassy in Santo Domingo for 1988.[2] Textile exports account for approximately 60% of the total.

- IFZ foreign exchange earnings accumulating with the Central Bank of the Dominican Republic increased from US$61.9 million in 1983 to more than US$130 million projected for 1988.[3]

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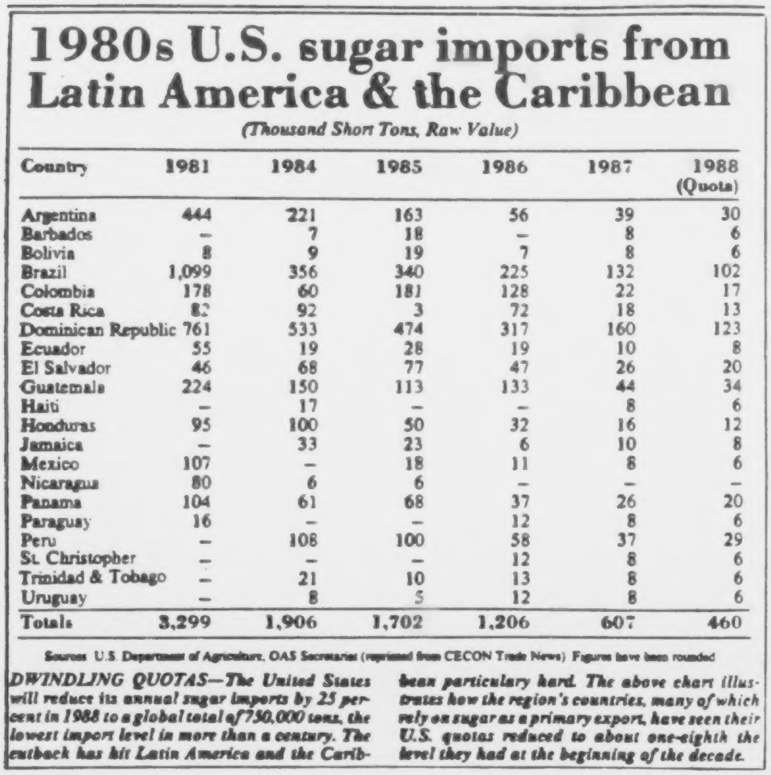
[2] *Ibid.* p.2.

[3] Report by Corporacion de Fomento Industrial, *Listin Diario*, August 24, 1988.

Impediments to Sugar Exports.

The growth in IFZ exports to the United States comes precisely at the time when sugar, the Caribbean Basin's major export crop, is rapidly being denied entry into the United States domestic market.

The Times of the Americas



1980s U.S. sugar imports from Latin America & the Caribbean

(Thousand Short Tons, Raw Value)

Country	1981	1984	1985	1986	1987	1988 (Quota)
Argentina	444	221	163	56	39	30
Barbados	–	7	18	–	8	6
Bolivia	8	9	19	7	8	6
Brazil	1,099	356	340	225	132	102
Colombia	178	60	181	128	22	17
Costa Rica	82	92	3	72	18	13
Dominican Republic	761	533	474	317	160	123
Ecuador	55	19	28	19	10	8
El Salvador	46	68	77	47	26	20
Guatemala	224	150	113	133	44	34
Haiti	–	17	–	–	8	6
Honduras	95	100	50	32	16	12
Jamaica	–	33	23	6	10	8
Mexico	107	–	18	11	8	6
Nicaragua	80	6	6	–	–	–
Panama	104	61	68	37	26	20
Paraguay	16	–	–	12	8	6
Peru	–	108	100	58	37	29
St. Christopher	–	–	–	12	8	6
Trinidad & Tobago	–	21	10	13	8	6
Uruguay	–	8	5	12	8	6
Totals	**3,299**	**1,906**	**1,702**	**1,206**	**607**	**460**

Sources: U.S. Department of Agriculture, OAS Secretariat (reprinted from CECON Trade News). Figures have been rounded

DWINDLING QUOTAS—The United States will reduce its annual sugar imports by 25 percent in 1988 to a global total of 750,000 tons, the lowest import level in more than a century. The cutback has hit Latin America and the Caribbean particulary hard. The above chart illustrates how the region's countries, many of which rely on sugar as a primary export, have seen their U.S. quotas reduced to about one-eighth the level they had at the beginning of the decade.

Sugar, traditionally the single most important Dominican Republic export to the United States, has been reduced from 533,000 tons in 1984 to 123,000 tons in 1988. The impact on Dominican Republic foreign exchange earnings from loss of the United States sugar market has been severe; without the growth of export earnings from IFZ operations the results could have been even more devastating.

Non-quantifiable Benefits.

In addition to results which are measurable by statistics, CBI-I, through its indirect stimulation of IFZ operations, is contributing to positive social changes which have important benefits for both the Dominican Republic and the United States.

- The Dominican labor force is being taught modern factory discipline and practices. Free zone manufacturers require employees to punch timecards, make social security contributions, pay income taxes, conform to a five day work week, and generally adapt to a factory environment. The cost of this training is borne entirely by the private sector. Yet the results are contributing to the gradual transformation of Dominican labor from subsistance agriculture to a work force skilled in industrial and agroindustrial techniques.

- The growth of IFZ companies has created dramatic new opportunities for employment of women outside the home. More then seventy percent of the IFZ work force is female. Efforts to study the impact of increasing employment opportunities for women in the Dominican Republic are just beginning. Social scientists have observed that earnings of women most directly affect the welfare of the family through improved housing, nutrition and child education. We also know from studies in other countries that female participation in the economy is a necessary and positive contributor to modernization.

- The impact of increased industrial employment, both male and female, on family planning has not been measured in the Dominican Republic. If experience elsewhere is a guide, however, increasing industrial employment oportunities will contribute directly to responsible family planning.

- One out of every ten Dominicans currently resides in the United States. Immigration to the United States has been spurred by the lack of employment oportunities in the Dominican Republic.

- The growth of stable employment provided by increasing oportunities in the industrial free zones of the Dominican Republic has contributed to the stabilization of the Dominican economy, which in turn enhances the conditions under which the democratic institutions of a freely elected government can operate.

CBI and Textile Exports.

The impact of CBI-I on the growth of textile sewing operations in the Dominican Republic has been positive, even though CBI-I does not contain any provisions which create trade preferences for Dominican textile exports to the United States. We are all aware that the original CBI legislation excludes import sensitive products, including textile and apparel goods, from its duty free treatment provisions. Nonetheless, the attention focused on Central America and the Caribbean through the legislative process which created CBI-I caused many United States apparel manufacturers to shift their attention from the Far East to the Caribbean Basin. The figures cited above on the growth of IFZ companies in the Dominican Republic illustrate the indirect but positive effect which CBI-I has had on garment and apparel manufacturers in the Dominican Republic.

Quotas and the MFA.

While textile operations have grown, that growth is being increasingly constrained by quota limitations placed on the Dominican Republic under the Multi-Fiber Agreement. The basic objective of the Multi-Fiber Agreement was to limit the extraordinarily high volumes of textile exports originating from the Far East and other major textile exporting countries.

While the Caribbean Basin countries are relatively minor exporters to the United States, they have been limited by the same provisions, even though the Caribbean nations do not threaten the U.S. economy. While the United States has a positive trade balance with the Dominican Republic, Dominican exports are currently subject to quota restrictions on shirts, blouses, blue jeans, trousers, shorts, skirts and womens's polyester suits. These restraints have been ameliorated in part by the Caribbean Basin Special Access Program which has the effect of giving greater allotments to textile products made from U.S. formed and cut fabric. The Special Access Program, however, provides only modest relief against the growing number of quota restrictions placed on Dominican garment exports.

The 1988 Textile Act.

The protectionism created through the Multi-Fiber Agreement will be vastly increased by the Textile and Apparel Trade Act of 1988 which has been passed by the Congress and awaits Presidential action. The Textile Act would restrict growth in all textile exports to the United States to a limit of one percent per annum. This legislation will freeze Dominican Republic textile exports to the United States. Since textile products account for some sixty percent of IFZ exports, the Textile Act will kill the possibility for significant new growth in one of the few growth sectors of the Dominican Republic economy.

The Enhanced Importance and Urgency of CBI-II.

In this context the passage of the textile provisions contained in the Caribbean Basin Economic Recovery Expansion Act of 1987 (CBI-II) becomes of paramount importance for the textile export industry of the Dominican Republic and its Caribbean neighbors. CBI-II provides for unlimited duty free treatment for articles manufactured, assembled or processed from one hundred percent U.S. materials, components, and other products. This would allow garments and apparel made wholly of U.S. textiles to enter the United States both duty and quota free. If the Textile Act of 1988 is enacted into law, the textile provisions of CBI-II represent the only measure under consideration by this Congress which would permit the continued growth of this important sector throughout the Caribbean.

When this committee held its first hearings in December 1987, the textile provisions of CBI-II represented an important mechanism to combat the growing restrictions imposed through quotas on textile exports. That perspective has been radically changed by the Textile Act of 1988. Now, the Caribbean textile industry is faced with a total impediment to growth. The importance of the exception to the Textile Act of 1988 created by the textile provisions in CBI-II cannot be overstated. CBI-II is now vital to the continued growth of this sector of hope in the entire Caribbean.

The duty and quota free textile exports contemplated by CBI-II will have no major effect on the total export of textiles to the United States since Caribbean Basin textile exports are but a small fraction of total apparel exports to the United States. However, the creation of a CBI exemption from the overall provisions now established by the Textile Act of 1988 becomes vital to the Dominican Republic and all other CBI textile exporters to the United States. When the companion bill for the Caribbean Basin Economic Recovery Expansion Act was introduced to the Senate in August 1987, Senator Bob Graham noted that a provision of particular importance to the Caribbean will be:

> The separation of CBI goods from world wide imports which may be unfairly affecting the U.S. economy in cases where those goods may be restricted or sanctions applied. In these cases CBI goods, when taken by themselves, generally have little or no effect on our economy and should not be penalized for a larger problem.

The CBI countries are relative latecomers as textile exporters. They are latecomers precisely because the industrialization process is only now beginning to take hold. The textile provisions contained in CBI-II recognize the exceptional circumstances affecting the CBI countries and are designed to give a needed boost to the small economies of the twenty two Caribbean nations. I respectfully recommend favorable consideration of the Caribbean Basin Economic Expansion Act by this Committee.

Chairman GIBBONS. Thank you, sir.

Mr. NEHMER. Thank you, Mr. Chairman.

I would ask that my entire testimony be put in the record.

Chairman GIBBONS. Certainly. That is a good point. And all the witnesses so far have had their formal statements from which they have extracted portions.

And without objection, all statements of all witnesses today will be placed in the record in their entirety.

STATEMENT OF STANLEY NEHMER, PRESIDENT, ECONOMIC CONSULTING SERVICES, LEATHER PRODUCTS COALITION

Mr. NEHMER. Thank you, Mr. Chairman.

For the record, I am Stanley Nehmer. I am here on behalf of the Leather Products Coalition. There are five organizations: the Amalgamated Clothing and Textile Workers Union; the Footwear Industries of America, Inc.; International Leather Goods, Plastics, and Novelty Workers Union; Luggage and Leather Goods Manufacturers of America; and the Work Glove Manufacturers Association.

I am accompanied this morning by Joseph Cook who is executive director of the Work Glove Manufacturers Association.

A sixth organization joins with us on the statement, namely, the Rubber and Plastic Footwear Manufacturers Association.

We heard this morning from Ambassador Yeutter. And attached to my testimony, Mr. Chairman, is a letter from Ambassador Yeutter almost three years ago to the Footwear Association, in which he said if I may read it into the record:

Thank you for your recent letter regarding President Reagan's Caribbean Basin Initiative.

I would like to reaffirm that the Administration has no plans to reopen the Caribbean Basin Economic Recovery Act. I agree with my predecessor, Secretary Brock, that we must concentrate our efforts on effective implementation of the act so that the region may realize the full benefits to be gained from the broad range of products which are covered by the legislation.

I hope that my response will serve to reassure you as to the Administration's intentions in this regard. Sincerely, Clayton Yeutter.

Now I realize the Administration did not take the initiative with regard to this legislation; rather, this subcommittee did. At the same time it was clear from Ambassador Yeutter's remarks this morning that the Administration, contrary to the intent of this particular letter, does support the legislation.

Ambassador Yeutter said this morning that it would be wrong for the sugar industry to pay the price for this legislation. And I say to you, Mr. Chairman, and Members of the committee, what this legislation does is to have the textile, apparel, footwear, luggage, personal leather goods, work gloves, handbag and leather apparel industries pay the price for this legislation.

You may recall—I am sure you do—that in 1983 when the CBI legislation was enacted, the Reagan Administration did not recommend duty-free treatment for textiles and apparel.

Chairman GIBBONS. That is correct.

Mr. NEHMER. Those industries were excluded. This subcommittee, on a very narrow vote, did add six products to the exclusions from duty-free treatment. And that is the way the legislation went through, signed by the President into law.

Chairman **GIBBONS**. Your recollection is correct.

Mr. **NEHMER**. A year later, in 1984, Congress added five leather-related products to those products which could not receive GSP treatment. And those five products were added to textiles, apparel, and footwear, which had been excluded from GSP duty-free treatment since 1975.

So clearly we have a Congressional policy, an administration policy, which now, unfortunately, would appear to be overturned by the legislation before you, H.R. 3101.

We feel that proposals to expand the coverage of the CBI at this time are unwarranted, not only because of the deteriorating economic health of these industries, but because the Administration, as I indicate in these letters, has gone on record twice in recent years stating it had no intention of reopening the CBI legislation.

We have looked at the legislation very carefully. The centerpiece of the bill we feel is to substantially weaken the exemptions from duty-free treatment of leather-related and textile products, so as to give the Caribbean much greater access to our market for these products.

And yet we see in the statistics for the first seven months of this year, imports of textiles and apparel from the CBI increased 19 percent, whereas total imports from all countries declined by 10 percent.

CBI has been doing very well. We heard Mr. Russin insofar as the textile and apparel area is concerned.

We heard from Ambassador Yeutter that imports, excluding petroleum, between 1983 and 1987, from these CBI countries, increased 23 percent.

Gutting the exemptions which now exist from duty-free treatment in the bill, Mr. Chairman, will not solve the structural problems which exist in the Caribbean which are stymieing economic development in the region.

Nor will this effort help the Caribbean diversify its economy.

In fact, the bill if enacted would discourage diversity; it would encourage the growth of industries for which there is already excess world capacity, and in product lines where the United States is already inundated by low cost imports.

While it is questionable whether these changes in duty-free treatment will help the Caribbean, there is no question that they will hurt U.S. firms and workers that are already struggling to hold on.

The bill is a quick fix. It is a cosmetic approach to real problems in the Caribbean.

Supporters of the bill say that since imports of these different products represent just a small percentage of overall imports of these products, then Caribbean imports pose no real threat to firms and workers in these industries.

What they have overlooked is the fact that these U.S.-industries are already seriously damaged by imports.

In the leather products industries, the rates of import penetration are, for non-rubber footwear, 82 percent of the market now held by imports; rubber footwear, 65 percent; luggage, 69 percent;

personal leather goods, 46 percent; handbags, 86 percent; leather apparel, 66 percent; leather work gloves, 66 percent.

And the number of jobs lost in these industries in the last several years has been incredible.

No one is suggesting that imports from the Caribbean are responsible for this import impact or these lost jobs. What we are saying, Mr. Chairman, is that these industries and their workers have already been seriously injured by imports. And more and more imports from the Caribbean would make the situation much, much worse.

We have some very specific comments to make on certain sections of the legislation if I may just spend a few minutes on this.

First, while the legislation appears to place a cap on the number of duty-free imports of leather related and textile products, the formula to determine the base quantity for duty-free imports of these exempt products could in fact result in substantially greater quantities than narrative descriptions of the bill have indicated.

This is because the formula which determines the base quantity for each beneficiary country is defined as the larger of what that country exported to the United States in the most recent 12-month period, plus three percent per annum. Or the alternative being the total quantity of the particular item exported in that period from all of the CBI countries, divided by the number, some two dozen beneficiary countries.

So that every country in the Caribbean, whether or not it had shipped any of these goods to us in the past, or had made minor shipments to us, would get a quota that would be determined by the total exports from the Caribbean to the United States.

What this would do would be to encourage new entrants in these products. It would encourage, I am sorry to say, transshipments from the CBI country that had filled its quota to other countries that had not.

Secondly, there is a provision that effectively undoes any quantitative limitation on duty-free treatment of exempt products by providing for exemption of products in short supply, or when it can be shown that no directly competitive articles are produced in the U.S.

What we are talking about here is a procedure before the International Trade Commission which will require domestic industries to spend time and money which they cannot afford to fight off a plethora of likely petitions.

Third, there is a provision that provides duty-free treatment of articles produced in the Caribbean if 100 percent of the content is of U.S. origin.

We think from what we have heard that U.S. Customs has had a big problem in implementing today the so-called 807(a) provision to make sure that those goods are solely of U.S. origin.

I think Customs would have an additional burden if this particular provision was provided.

Fourth, there is no provision, after having provided for these things, there is no provision in this legislation for enforcement by Customs of these duty-free, exemption gutting provisions.

Normally, legislation of this type provides for authority to the President—and I quote, and this is language which we have all seen so many times—to prescribe regulations governing the entry or withdrawal from warehouse, end quote.

The legislation is silent on this important point. And yet there needs to be enforcement, yet there is no authorization to enforce.

This is a shortcoming of the bill.

In sum, we feel these provisions could largely destroy the current duty-free exemptions in the CBI program.

The real beneficiaries of this legislation will be certain Far Eastern countries which have already established facilities in the Caribbean, some of them in anticipation of the loss of GSP treatment on January 1, 1989, the Four Tigers of the Far East.

And therefore, we would urge the subcommittee not to report out this legislation with these particular provisions. The real solution to the problem in the Caribbean is stated in the 1987 report of the ITC, and that is that future growth in exports will most likely depend on current export-oriented investment.

And the ITC pointed out some very significant structural problems in the Caribbean. The inadequacy of the general infrastructure. Transportation ports, roads, electric power, communications, which make operations uncertain and costly for U.S. firms interested in the region.

The inexperience of these Caribbean firms, other than these Far Eastern ones which are establishing down there, makes development of distribution networks and formation of joint ventures difficult.

There is political and social instability in some of these countries.

And last but not least, there is local controls on exports and imports into these different countries. And exchange controls that limit the availability of hard currency required for imported inputs. These are matters that have to be corrected; not the kinds of provisions that I just commented on in H.R. 3101.

Thank you very much for the time, Mr. Chairman.

[The statement of Mr. Nehmer follows:]

STATEMENT OF THE
LEATHER PRODUCTS COALITION
ON
H.R.3101, THE CARIBBEAN BASIN ECONOMIC RECOVERY EXPANSION ACT OF 1987

I.

This statement is submitted on behalf of the following member organizations of the Leather Products Coalition:

- Amalgamated Clothing & Textile Workers Union, AFL-CIO
- Footwear Industries of America, Inc.
- International Leather Goods, Plastics & Novelty Workers' Union, AFL-CIO
- Luggage & Leather Goods Manufacturers of America, Inc.
- Work Glove Manufacturers Association

The Rubber and Plastic Footwear Manufacturers Association joins in this statement.

These six organizations are seriously concerned over the prospect of further liberalization of imports from the Caribbean through sections 3, 4, 7a, and 8 of H.R.3101.

As a matter of public policy, U.S. efforts to help our neighbors to the south could not be on firmer ground. The goals of the CBI program to help the economically-distressed Caribbean are certainly laudable. However, the manner in which the aid is delivered must also be publicly supportable and this is where H.R.3101 is fatally flawed.

Congress and the Administration concluded in 1983 that certain domestic industries, particularly textiles, apparel, footwear, luggage, personal leather goods, handbags, work gloves, and leather wearing apparel were in such distress due to imports that it was not publicly supportable to harm these industries still further by removing what little protection they had in the form of tariffs. As a result, these industries were exempted from the duty-free provisions of the legislation. The President signed the legislation into law.

It should be noted that one year later, in the Trade and Tariff Act of 1984, Congress added five leather-related products, already exempted from duty-free treatment under the CBI, to the list of products which, by statute, could not be accorded duty-free status under the Generalized System of Preferences. Textiles, apparel, and footwear had been exempted from GSP duty-free treatment since 1975. Clearly Congress and the Administration recognized the need to weigh the political benefits to the Caribbean countries against the potential costs to these U.S. industries.

Proposals to expand coverage of the CBI at this time are still unwarranted, not only because of the deteriorating economic health of these domestic industries but because the Administration has gone on record twice in recent years stating that it had no intention of reopening the CBI legislation. They said that their efforts would instead be directed at effective implementation of the Act. We have attached to this statement copies of these assurances from

Ambassadors Brock and Yeutter, the former and current Trade Ambassadors.

We have looked at this legislation carefully. The centerpiece of the bill is to substantially weaken the exemptions from duty-free treatment of leather-related and textile products, so as to give the Caribbean much greater access to our market for these products. *The bill does very* little to deal with the real problems in the region, which are structural in nature. Gutting our exemptions will not solve these structural problems that are stymieing economic development in the region; nor will this effort help the Caribbean diversify its economy. In fact, the bill, if enacted, would discourage diversity and encourage the growth of industries for which there is already excess world capacity. While it is questionable whether these changes in duty-free treatment will help the Caribbean, there is no question that they will hurt U.S. firms and workers that are already struggling to hold on. The bill is a "quick fix," cosmetic approach to real problems in the Caribbean. Congress must dig a little deeper for some real solutions.

II.

A lot of statements have been made about the CBI and particularly about the products exempt from duty-free treatment. Much of what has been said by supporters of the legislation are not accurate and this testimony will attempt to set the record straight.

The House sponsors of H.R.3101 announced that the new CBI bill's purpose is "to build confidence in the region, create business certainty, and provide a long term investment climate, thereby promoting trade and development."

Unfortunately, there is a substantial gap between the purpose of the bill as stated by its sponsors and the language of the bill itself. The bill would allow duty-free treatment, albeit not open-ended, on most exempt products such as footwear, textiles, apparel and leather-related products, in a way designed to get around the present duty-free exemptions. Thus the bill would not encourage a diversified manufacturing base, which could add to the region's economic strength, but rather it encourages reliance on the export of those products for which there is already substantial over capacity in the world and where the U.S. market is already inundated by low-cost imports. This is certainly not a promising prospect in terms of the region's future development, with or without duty-free access to the U.S. market.

Supporters of the bill say that since imports of leather products and textiles and apparel from the Caribbean constitute just a small percentage of overall imports of these products, then Caribbean imports pose no real threat to firms and workers in these industries.

What they have overlooked is the fact that these U.S. industries are already seriously damaged by imports. Additional imports will only make the damage worse. Imports have destroyed large segments of these industries as evidenced by import penetration rates for these labor-intensive industries. In the leather products industries, the rates are: non-rubber footwear 82%, rubber footwear 65%, luggage 69%, personal leather goods 46%, handbags 86%, leather apparel 66%, leather work gloves 66%. Between 1982 and 1987, 46,700 jobs were lost in the non-rubber footwear industry, 8,200 jobs were lost in rubber footwear, 2,400 jobs were lost in the luggage industry, and 11,600 jobs in the personal leather goods and handbag industries.

No one is suggesting that imports from the Caribbean are responsible for this import impact or these lost jobs. What we are saying is that these industries and their workers have already been seriously injured by imports and more imports from the Caribbean will only make their situation worse. This is not a publicly supportable policy.

The U.S. workers who are being displaced are among the least educated, least skilled, least paid, and least employable of our labor pool. Many are minorities. Many are women who are holding second jobs or are heads of households. Many live in rural towns where there is no alternative employment. Many live in the inner cities where the only alternative to working in these industries is public assistance. And many are recent immigrants to this country -- some are from the Caribbean itself.

While Caribbean imports of textiles, apparel and leather goods may be a fraction of the total, that total is mammoth. In 1987, the combined trade deficit for these industries was $34 billion. Moreover, preferential duty treatment on these products for the Caribbean is clearly not intended to be a "unique" occurrence. The U.S. already gives duty-free status to Israeli imports under a free-trade arrangement. Canada is next. Then perhaps the ASEAN countries, Mexico, Korea, Taiwan, Japan and anyone else who is interested. The impact of the growing patchwork of preferential trading arrangements will clearly be cumulative and, as a result, potentially much more harmful to U.S. import-sensitive industries.

The legislation's sponsors say that the bill limits the overall quantity of leather-related products and textiles and apparel that can be imported from the Caribbean quota and duty-free.

This view of the legislation is deceptive. In fact, the bill places no overall limitation on duty-free imports of the exempt products. One need only take a closer look at the legislation to see why.

First, while the legislation appears to place a cap on the number of duty-free imports of leather-related and textile products, the formula to determine the base quantity for duty-free imports of the exempt products could in fact result in substantially greater quantities than narrative descriptions of the bill have indicated. This is because the formula, which determines the base quantity for each beneficiary country, is defined as the larger of what the country exported to the U.S. in 1987 or the total quantity of the particular item exported in 1987 divided by the number of beneficiary countries.

This provision would:

(a) encourage new entrants in these products by offering the incentive of a duty-free quota;

(b) encourage transshipments from a CBI country that had filled its quota to others that had not; and

(c) actually provide a much larger growth factor for those exempted items subject to the tariff-rate quota than has been indicated by the bill's sponsors.

Second, another provision that effectively undoes any quantitative limitation on duty-free treatment of the exempt products is the provision for duty-free treatment for exempt products in short supply, or "when it can be shown that no directly competitive articles are produced in the U.S."

This is another open-ended provision. One can assume that efforts will be made by interested parties in the Caribbean countries and in the U.S. to apply for removal of duty-free treatment on the various grounds provided. One key issue that will recur constantly will be to determine what is a "directly competitive" article. The procedure before the International Trade Commission will require U.S. industries to spend an inordinate amount of time and money at the ITC to fight off a plethora of likely petitions. We need only look back a few years ago to the example of the American Selling Price, which was applicable to certain rubber footwear before it was abolished in the Toyko Round. Under the ASP program, footwear producers were required to make their case over and over again on a variety of footwear products as to what constituted a like or directly competitive article. The requirements of this program were a nightmare and very costly to domestic producers. Some of the cases dragged on for years before being settled.

Third, the provision that provides duty-free treatment of articles produced in the Caribbean if 100 percent of the content is of U.S. origin is another major sieve for unlimited duty-free imports of the exempt products. Moreover, U.S. Customs has had an enormously difficult time enforcing a similar provision (involving quota-free imports) on apparel products from the Caribbean.

Fourth, there is no provision for enforcement by Customs of these duty-free exemption-gutting provisions. Normally, legislation of this type provides for authority to the President "to prescribe regulations governing the entry or withdrawal from warehouse." The legislation is silent on this important point.

In sum, those provisions could largely destroy the current duty-free exemptions in the CBI program.

People in the Caribbean have said that investment in the area has been thwarted by the product exemptions granted in the original CBI legislation.

The facts simply do not support this theory. Much of the investment undertaken in the region involves the production of goods that are ineligible for duty-free treatment under the CBI. According to a 1987 U.S. International Trade Commission report, of 132 projects undertaken in the 1986 reporting period, 55 were in the product areas identified as ineligible for duty-free treatment such as shoes and apparel.

We are told that imports of these products from the Caribbean will displace imports from the Far East -- not U.S. workers.

This is absolutely wrong. Imports from the Far East have not abated. Increased imports under a preferential trading system are rarely a replacement of imports from current foreign suppliers -- they are in addition to such imports.

We are even told that the program has been a failure as evidenced by a decline in imports from the Caribbean since the program's inception.

The fact of the matter is that, excluding oil-exporting countries, U.S. imports from CBI beneficiaries increased by over 25 percent from 1983 to 1986.

Supporters of the legislation say that amending the CBI to allow quantities of currently exempt products to enter the U.S. duty-free will result in major improvements in the program.

Again, the facts just do not support this contention. According to a 1987 ITC report, future growth in exports will most likely depend upon current export-oriented investment. And to date, such investment has not been appreciable due to certain structural problems within the region which the ITC was not optimistic could be successfully redressed in the near future. These include:

- -- The inadequacy of CBI countries' general infrastructure including transportation, ports, roads, electric power, and communications, which make operations uncertain and costly for U.S. firms interested in the region;
- -- Caribbean firms' inexperience with U.S. markets, which makes development of distribution networks and formation of joint ventures difficult;
- -- Political and social instability in some countries in the region; and
- -- Local controls on exports and imports, exchange controls that limit the availability of hard currency required for imported inputs, and local bureaucracies.

III.

Although our immediate concern is the issue of duty-free exemptions, we would be remiss if we did not mention another issue of great concern to our industries and that is the provision in the bill to insulate CBI countries from application of U.S. unfair trade laws. The so-called "cumulation" provision of U.S. unfair trade laws would be effectively eliminated insofar as dumped or subsidized exports to the U.S. from the CBI countries are concerned. Under the cumulation provision, imports from all countries subject to an unfair trade case are added together in the determination of injury from imports. Thus, imports from a small supplier (such as a Caribbean country) could be found to be a cause of injury, and an antidumping or countervailing duty would be imposed. However, in the absence of cumulation, the CBI country might be found to be too small to be a cause of injury and such duties would not be imposed. Yet the quantity imported from a CBI country on top of imports from other countries would certainly contribute to the injury to an American industry through a Caribbean country's unfair trade practices. Furthermore, this provision would permit other countries to request similar treatment and, in fact, Israel was a recent "midnight" beneficiary of such an exemption in the omnibus trade bill. We term it "midnight" because the provision was slipped in the trade bill in conference without being considered by the House or Senate or in public hearings. This has established an unfortunate precedent that will surely be picked up by others, seriously undermining the cumulation laws.

IV.

In conclusion, it is our firm belief that as a matter of sound public policy a successful program for the Caribbean cannot result when it will exact such a high price tag for the U.S. industries now exempt from duty-free treatment. It is a negative approach where one side gains while the other loses. We do not happen to believe that this is either a wise or sound approach to the very real problems of our Caribbean neighbors. H.R.3101 does a disservice to these industries and to the countries of the Caribbean. We call upon the Subcommittee and the full Ways and Means Committee not to report this bill favorably.

THE UNITED STATES TRADE REPRESENTATIVE
WASHINGTON
20506

October 7, 1985

Mr. George Q. Langstaff
President
Footwear Industries of America
1611 North Kent Street
Suite 900
Arlington, Virginia 11109

Dear George:

Thank you for your recent letter regarding President Reagan's Caribbean Basin Initiative. I would like to reaffirm that the Administration has no plans to reopen the Caribbean Basin Economic Recovery Act. I agree with my predecessor, Secretary Brock, that we must concentrate our efforts on effective implementation of the Act so that the region may realize the full benefits to be gained from the broad range of products which are covered by the legislation.

I hope that my response will serve to reassure you as to the Administration's intentions in this regard.

Sincerely,

Clayton Yeutter

CY:scc

THE UNITED STATES TRADE REPRESENTATIVE
WASHINGTON
20506

March 26, 1985

Mr. George Q. Langstaff
President
Footwear Industries of America
1611 North Kent Street
Suite 900
Arlington, Virginia 22209

Dear Mr. Langstaff:

You noted in your letter of March 4 that leaders of several Caribbean countries have urged that the Caribbean Basin Economic Recovery Act be amended to add textiles and apparel products and footwear to the list of items eligible for duty-free treatment under the Act.

I can assure you that the Administration has no plans to reopen the legislation. That point was made clear to all of the Caribbean governments by Grant Aldonas of my staff during his recent trip through the region. Our efforts will be directed rather at the effective implementation of the current law and its incentives to investors in the broad range of product categories presently covered by the Act.

Very truly yours,

WILLIAM E. BROCK

WEB:acl

Chairman Gibbons. Thank you, Mr. Nehmer.

STATEMENT OF ELI HADDAD, COCHAIRMAN, TEXTILE AND APPAREL GROUP, AMERICAN ASSOCIATION OF EXPORTERS & IMPORTERS

Mr. Haddad. My name is Eli Haddad. And I am president of Generation One Apparel, a company engaged in the import and sale of clothing in the United States.

We currently manufacture about 30 percent of our production in the Caribbean.

I am also co-chairman of the textile and apparel group of the American Association of Exporters and Importers.

Our group, which I would like to refer to by its initials, TAG, Textile Apparel Group, represents over 100 of the major retailers and importers in the United States; and our association represents over 1,000 major U.S. corporations engaged in international trade.

It is in this capacity as chairman of TAG that I am pleased to be with you to testify in support of H.R. 3101.

However, before I address the merits of H.R. 3101 I believe it is important for me to state TAG's position regarding H.R. 1154—it is too bad Congressman Pease isn't here—the textile and apparel trade act, and the version of the bill revised in the Senate, which I understand will shortly be considered by the House.

This bill is the personification of special interest protectionist legislation. If passed by the House of Representatives and enacted into law, the revised H.R. 1154 would among other things give a preference in the allocation of global quotas and maximum one percent annual growth, established under the bill, to countries which increase their purchase of U.S. agriculture, and would establish an unworkable program of auctioning of import quotas on a category basis.

The combination of these two dangerous problems would result in a nightmarish system of government control, creating havoc for importers, retailers, domestic manufacturers relying on imported textile raw materials, and ultimately, U.S. consumers, besides violating U.S. treaty obligations, and threatening international trade war.

For these reasons, TAG believes that H.R. 1154 should be disapproved by the House when it is considered.

Turning now to H.R. 3101, it is TAG's view that the textile and apparel provisions are necessary and indeed vital to the objections of H.R. 3101.

A major reason investment and trade have not reached the levels originally envisioned is that products such as textiles and apparel were excluded from duty-free treatment under the original CBI legislation.

TAG believes the passage of H.R. 3101 would provide real benefits to CBI beneficiary countries, and to the American consumer, at no real cost to the domestic economy.

In particular, Section 7, the provision eliminating both duties and quota restrictions for articles manufactured, assembled, or otherwise produced in CBI-beneficiary countries of materials, components or other goods of the United States, represent a major improvement over the present system.

If properly implemented, the guarantee of an exemption from any quota for these products, coupled with the additional duty break, going beyond the current 807 program, represent a real inducement for U.S. investment in the region, going well beyond the special access program.

Further benefits of Section 7 are that it allows Caribbean Basic producers to perform certain operations following assembly, such as super washing or acid dying of finished garments, which under the strict requirements of Section 807 would not be allowed for shipments, and that it allows Caribbean Basin entrepreneurs to produce their own fabric from U.S. yarn, and to finish U.S. gray goods without the penalties of duties and quota.

In the short run, assembly operations are likely to continue to predominate in the Caribbean Basin. However, as Caribbean Basin industries mature, and increase in sophistication and skill, the expanded opportunities created under Section 7 will become increasingly practical and attractive.

While we applaud the improvement to the CBI which Section 7 represents, we believe the Committee should consider going a further step, by allowing duty-free and quota-free entry into the U.S. for all textile and apparel imports of Caribbean Basin origin.

We recognize that there would be strong opposition from domestic textile interests to providing an exemption from duties and quotas for Caribbean textile and apparel products.

However, we strongly believe that such opposition is ill founded. As special Customs service regulations relating to the country of origin of textiles and textile products which require substantial manufacturing, as well as substantial transformation, to confer origin, these practices prevent the types of abuse which concern the domestic industry.

However, in the absence of full duty-free treatment for textile and apparel products of CBI origin, we recommend that Section 7 be modified to allow duty-free and quota-free status for products manufactured wholly of materials of Caribbean Basin origin, as well as for products wholly of Caribbean Basin and U.S. origin.

We believe such a revision is in keeping with the idea that Caribbean Basin industries should be able to develop beyond mere assembly operations.

We support the other provisions of the bill, which provide duty-free treatment for textile and apparel under certain circumstances.

A detailed witness statement which hopefully will enter the record will provide modifications which would improve some of these provisions.

Additionally we support Section 213(a) which relates to duty-free treatment of short supply products. But we anticipate that this provision by itself will have relatively few applications, and little overall impact, on CBI countries.

We do recommend that duty-free treatment and quota exemptions be extended to products which are produced from materials in short supply in the United States. In many instances necessary U.S. materials are not available.

Our textile mills this past year have been operating at close to 90 percent of capacity. This doesn't help apparel manufacturers in the Caribbean.

Where such shortages exist, the intended benefits of the bill for Caribbean Basic producers are lost, even though domestic textile fabric industry does not gain.

We believe that duty-free treatment in these situations, with safeguards such as the initial ITC short supply determination, and a mechanism for ITC review, would be significant improvements to H.R. 3101; beneficial to domestic apparel manufacturers operating in the Caribbean; to retailers; to consumers; as well as to CBI beneficiary countries.

In recent years, Caribbean Basin countries have come to recognize the importance of export oriented development and diversification into nontraditional manufactured exports. That was the purpose of CBI I.

At the same time, the U.S. has recognized that in terms of its own contributions to the region, trade is far superior to aid. And increasing U.S. market access for the products of the region is the single most important contribution the U.S. can make to regional development.

The original CBI and the CBERA were both premised on this idea. However, in execution, both fell short by excluding textiles, apparel, and other key products such as footwear from the benefits of these programs.

My family have been international entrepreneurs, not limited to textile and apparel, for over three generations. It is premature and impractical to invest and develop industries that require higher level skills, long development lead times, and major capital commitments, as we have in the CBI.

Indeed, the existing matrix of sociocultural and educational factors, alongside a generally unstable political environment are what motivated the establishment of CBI in the first place.

These factors inhibit the development of industries that are other than labor intensive and low capital with short development cycles.

Apparel manufacture and other light assembly industries are the ideal tools for building the skills for a more vibrant industrial base.

Ambassador Yeutter used the term, feasibility. Congressman Frenzel mentioned that this is what the Caribbean does best.

By extending duty free and quota free treatment, albeit in a limited fashion, to textile and apparel and other products, H.R. 3101 goes a long way to rectifying CBI's shortcomings.

As set forth herein, TAG believes the idea of increased market access for the products of the region should go even further, and has provided recommendations to more fully meet this goal.

We urge the committee, in closing, to act favorably upon our recommendations to further improve market access in a feasible manner for Caribbean Basin products, specifically, textile, apparel, and light industrial assembly industries.

Thank you.

[The statement of Mr. Haddad follows:]

EX IM
AMERICAN ASSOCIATION OF EXPORTERS AND IMPORTERS
11 WEST 42ND STREET, NEW YORK, N.Y. 10036 · (212) 944-2230

**TEXTILE
&
APPAREL
GROUP**

TESTIMONY
FOR THE SUBCOMMITTEE ON TRADE OF THE SUBCOMMITTEE OF WAYS AND MEANS COMMITTEE

My name is Eli Haddad and I am President of Generation One Apparel, a company engaged in the import and sale of clothing in the United States. I am also Co-Chairman of the Textile and Apparel Group of the American Association of Exporters and Importers and it is in this capacity that I am pleased to be with you today.

The Textile and Apparel Group ("TAG") of the American Association of Exporters and Importers represents approximately 100 importers, domestic manufacturer-importers, and retailers all of whom depend for their survival on the free flow of trade in textiles and apparel. The members of TAG are responsible for billions of dollars of U.S. retail sales of apparel and other finished textile products and are responsible for a substantial share of total imports of apparel and other textile products.

Given our stake in international trade in these products, TAG is highly supportive of H.R. 3101, the Caribbean Basin Economic Recovery Expansion Act of 1987. In particular, TAG would like you to know that it wholeheartedly supports those provisions of H.R. 3101 that would serve to expand access to the U.S. market of apparel and other textile products assembled or manufactured in CBI beneficiary countries.

However, before I address the merits of H.R. 3101 I believe it is important to let you know TAG's position regarding H.R. 1154, the Textile and Apparel Trade Act of 1987, and the version of that bill revised in the Senate, which, I understand, shortly will be considered by the House of Representatives. H.R. 1154, otherwise known as the Textile Bill or the Hollings Textile Bill, is the personification of special interest protectionist legislation. TAG hopes that upon consideration the House of Representatives will vote to dismiss the Hollings version of H.R. 1154. The original Textile and Apparel Trade Act of 1987, which was approved by the House of Representatives on September 10, 1987, was bad legislation. The Hollings version, however, is much worse! If passed by the House of Representatives and enacted into law, it would:

- Give a preference in the allocation of the global quotas and maximum one percent annual growth established under the Bill to countries which increase their purchases of U.S. agriculture.

- Establish an unworkable program of auctioning of import quotas on a category basis.

- Expand the coverage of the original Bill to products not currently subject to quotas or to coverage under the MFA.

We do not intend to detail the risks of linking textile quotas and agricultural trade, or the horrendous administrative problems inherent in auctioning quotas for as varied a range of products as textiles and apparel. Suffice to say, the combination of these two dangerous problems would result in a nightmarish system of Government control, creating havoc for importers, retailers, domestic manufacturers relying on imported textile raw materials, and ultimately U.S. consumers.

For these reasons, TAG believes that H.R. 1154, in terms of equity to the American consumer and fairness to the international trading community, should be disapproved by the House when it is considered.

As regards H.R.3101, the enhancement legislation for the Caribbean Basin Economic Recovery Act, it is TAG's view that the textile and apparel provisions are necessary and appropriate. Although the original Caribbean Basin Economic Recovery Act ("C.B.E.R.A.") has had a beneficial impact on the region, to date, the principal benefit has been in the increased visibility of the region, while the potential for investment and trade has not been fully realized. A major reason investment and trade have not reached the levels originally envisioned is that products, such as textiles and apparel, were excluded from duty-free treatment under the C.B.E.R.A. Production of these products fit well within the framework of development for CBI beneficiary countries and represent a significant area for growth and development. TAG believes the passage of H.R.3101 would provide real benefits to CBI beneficiary countries and to the American consumer at no real cost to the domestic economy, including the domestic apparel industry and domestic unions.

The textile provisions of H.R. 3101 must be placed in the context of overall U.S. trade policy regarding U.S. imports of textiles and apparel. As the Subcommittee is well aware, the Administration currently administers a textile and apparel import restraint program which includes bilateral agreements with 43 developing countries whereby those countries have been forced to accept quotas in 1,300 individual product categories. Under the current textile and apparel import restraint program, 85 percent of all textile and apparel trade from exporting developing countries is subject to U.S. import restraints at overall average import growth levels of less than 5 percent. This pervasive quota control program, when combined with very high tariff rates averaging approximately 18 percent for textiles and apparel, has resulted in very real limitations on import growth. These limitations have resulted in high import costs that are estimated to cost the consumer some $27 billion a year. Of course, the burden of these increased import costs attributable to the quota system and to the high duty rates under the Tariff Schedules for textiles and apparel have a disproportionately high impact on the poor, who spend disproportionate amounts of their income on clothing.

While TAG naturally would prefer the dismantling of the whole textile and apparel import restraint program and a lowering of duties for textiles and apparel to levels comparable to other manufactured products, TAG realizes such legislation probably is not possible in the short term. Notwithstanding this, TAG believes that any measure of liberalization in the textile and apparel restraint program is to the general good and for that reason TAG gives its wholehearted support to those provisions of H.R.3101 that would provide greater access to CBI beneficiary countries for their exports of apparel and other textile products to the U.S. market.

Despite more liberal quota treatment for Caribbean Basin suppliers of textiles and apparel promised by President Reagan at the outset of the CBI program, and the Special Access Program initiated in 1986, imports from Caribbean Basin Countries have increased only slightly in relation to total U.S. imports during the period the C.B.E.R.A. has been in place, growing from 3.6 percent of total imports in 1983 to 4.9 percent in 1987 (see attached table). As such, we do not believe that passage of H.R. 3101 would pose a threat to domestic textile and apparel manufacturing. This is particularly the case because imports of textiles and apparel from the Caribbean continue to be preponderantly by the domestic manufacturers themselves. In 1987, 66 percent of all apparel imports from CBI beneficiary countries entered the United States under Section 807.

On the other hand, despite the stated U.S. interest in giving preferential quota treatment to CBI beneficiaries, the growth of textiles and apparel imports from CBI beneficiaries has resulted in a dramatic increase in the number of categories of imports under quotas from the four largest Caribbean Basin suppliers, the Dominican Republic, Costal Rica, Haiti, and Jamaica:

	1983	1984	1985	1986	1987	1988 (through Aug.)
GAL					35	37
OTHER	20	20	19	25	36	59
TOTAL	20	20	19	25	71	96

As can be seen, the most dramatic increase of quotas, including non-GAL quotas, has occurred since the introduction of the Special Access Program. These quotas will inevitably limit the growth of textiles and apparel industries in the region.

Even the GAL's, which have a stated purpose of attracting U.S. investment, have had the effect of disrupting trade in a number of instances. In certain instances, the growth of trade outstripped the GAL levels established. In other instances, the paperwork necessary for GAL shipments proved to be the disruptive factor. To the Administration's credit, where problems have arisen, as in the case of a number of categories from Jamaica and category 347/348 from the Dominican Republic, good faith efforts were made to minimize the disruptions once they occurred. Thus, while the Special Access Program is of some benefit under the current system where quotas of some sort are likely to be imposed if investment is made for production of textiles and apparel in the Caribbean, the existence of a GAL complicates investment decisions, whether for expansion of existing operations or development of new operations.

We believe H.R. 3101 represents a major improvement over the current system. The most important provision of this legislation is Section 7, the provision eliminating both duties and quota restrictions for articles manufactured, assembled, or otherwise produced in CBI beneficiary countries in whole of materials, components, or other goods that are products of the United States. If properly implemented, that is, if implemented without an unduly burdensome regulatory regime, the simple guarantee of an exemption from any quota for these products, coupled with the additional duty break going beyond the current 807 program, should represent a real inducement for U.S. investment in the region, going well beyond the Special Access Program.

A further benefit of Section 7 is that it allows Caribbean Basin producers to perform certain operations following assembly, such as superwashing or acid dying of finished apparel, which under the strict requirements of Section 807 would not be allowed. Currently Customs considers these operations to be more than incidental to assembly. As a result, articles assembled in the Caribbean of components cut in the United States of fabric formed in the United States are not allowed Section 807 treatment if these finishing operations are also performed, and the articles therefore are ineligible for GAL treatment under the Special Access Program. The language of new section 807.50 would allow these products to enter quota and duty free.

We also see the duty-free treatment and exemption from quotas under Section 7 as more in keeping with the underlying philosophy of Caribbean Basin development upon which the CBI and CBERA were originally premised. Under the Special Access Program, Caribbean Basin producers cannot go beyond the most basic value-added operation of assembly and they remain dependent on U.S. apparel manufacturers for the Special Access Programs' benefits. H.R. 3101 provides indigenous entrepeneurs in the Caribbean Basin with the opportunity to go beyond assembly by doing their own cutting. It also allows Caribbean Basin entrepeneurs the opportunity to produce their own fabric from U.S. yarn and to finish U.S. greige cloth without the penalties of duties and quota. In the short run assembly operations are likely to continue to predominate in the Caribbean Basin. However, as Caribbean Basin industries mature and increase in sophistication and skill, the expanded opportunities created under Section 7 of H.R. 3101 will become increasingly practical and attractive.

While we applaud the improvement to the CBI which Section 7 represents, we believe the Committee should consider going a further step by allowing duty-free and quota-free entry into the United States for all textile and apparel imports of Caribbean Basin origin.

We recognize that there would be strong opposition from domestic textile interests to providing an exemption from duties and quotas for all Caribbean textile and apparel products, and that it was this opposition which in the first instance created the exception for textiles and apparel in the original CBI legislation. The opposition to duty-free and quota-free treatment for these products, then and now, is premised on the notion that such an exemption would create a "loophole" in the current overall protectionist scheme for textiles and apparel, allowing Far Eastern interests to turn the Caribbean Basin into an "Asian lake." We strongly believe that such opposition is ill-founded.

There are currently in effect special Customs Service regulations relating to the country of origin of textiles and textile products, 19 CFR S.12.130 et seq. These regulations were promulgated with the specific intent of tightening rules of origin for quota purposes. The regulations require that for textiles or textile products to be the product of a particular country for quota purposes, it must be wholly the product of that country, or, if the product consists of materials produced or processed in another country, it would be a product of the country where it last had been transformed by means of substantial manufacturing or processing operations into a new and different article of commerce. The regulations also prohibit certain processing, such as certain assembly and finishing operations, from ever conferring origin, even though under earlier judicial and administrative precedent, these operations often conferred origin.

Given the rigorous standard in place for country-of-origin determinations for textiles and apparel, there is no good reason for continuing to withhold duty-free and quota-free treatment for products from the Caribbean Basin Countries meeting the current regulatory standard for origin determinations.

In the absence of full duty-free treatment for textile and apparel products of Caribbean Basin origin, we recommend that duty-free and quota-free status be granted to products manufactured wholly of materials of Caribbean Basin origin as well as to products wholly of Caribbean Basin and U.S. origin. We believe such a revision is in keeping with the idea that Caribbean Basin industries should be able to develop beyond assembly operations.

Also, in the absence of a full duty and quota exemption for products of Caribbean Basin origin, we support the provisions of Section 4(a) of the Bill, which would provide duty-free treatment under certain circumstances for products excluded from duty-free treatment under the original C.B.E.R.A., such as textiles and apparel. The more important of these provisions, which establish new subsection 213A(d) of the C.B.E.R.A., would provide duty-free treatment for a limited quantity of textiles and apparel among other products. As we understand Section 4(d), duty-free imports would be limited to an amount equal to 103 percent of the previous years' exports of a product to the United States from each Caribbean Basin country or 103 percent of the per country average for all Caribbean Basin countries' exports of the product to the United States for the previous year. The duty-free quantity is further limited under the Bill to an aggregate amount for all Caribbean Basin countries of five percent of the total imports of the product from all sources.

While we strongly support the underlying concept, we believe the 3 percent annual growth limits should be increased. Given the small base of trade in the Caribbean in many textile and apparel categories, the compound effect of 3 percent is relatively small, particularly when it is recognized that textile and apparel growth is both cyclical and volatile. This means that imports of a product in certain years may not grow because of weak demand, while in other years overall demand might generate increased demand well in excess of 3 percent. At a minimum, new Section 213A(d) should allow for 7 percent growth, a growth rate which has often been allowed for products from the Caribbean under bilateral restraint.

We also believe the 5 percent cap on the total quantity of duty-free trade from the Caribbean in relation to total U.S. imports of a product is too low. We believe that no aggregate cap is needed in view of the individual country caps already established under the Bill. If an aggregate cap is needed on duty-free imports from the Caribbean Basin, it should allow for significantly greater growth.

We also support the provisions of new Section 213A(c), which relates to duty-free treatment of products such as textiles and apparel excluded from duty free treatment under the original CBI, when the U.S. International Trade Commission determines that such products either are not produced in the United States or are not produced in sufficient quantities to meet the domestic demand for the products and no directly competitive products are produced in the United States. Clearly products from Caribbean Basin countries meeting these criteria should not be subject to the exceptionally high tariff rates in effect for textiles and apparel. However, we anticipate that the provision will have relatively few applications and little overall impact on Caribbean Basin countries.

We also recommend that duty-free treatment and quota exemptions be extended to products which are produced from materials in short supply in the United States. As noted above, currently, the Bill provides duty-free and quota-free treatment for textiles and apparel from the Caribbean manufactured wholly of U.S. materials. However, in many instances, necessary U.S. materials are not available. Previous testimony of a domestic manufacturer operating under 807 in the Caribbean Basin pointed to the absence of domestic light weight polyester fabric needed for the production of certain ladies' blouses. Similar fabric shortages exist, either endemically or periodically, for other fabrics, such as certain cotton flannel, velveteen, and shirting materials. Where such shortages exist, the intended benefits of the Bill for Caribbean Basin producers are lost even though the domestic textile fabric industry does not gain from the requirement that only products wholly of U.S. materials are eligible for duty-free treatment. We believe that duty-free treatment in these situations, with safeguards such as an initial ITC short-supply determination and a mechanism for ITC review, would be a significant improvement to H.R. 3101, beneficial to domestic apparel manufacturers operating in the Caribbean as well as to the CBI beneficiary countries.

In recent years, Caribbean Basin countries have come to recognize the importance export oriented development and diversification into non-traditional manufactured exports. At the same time, the United States has recognized that in terms of its own contribution to the Region, trade is far superior to aid, and increasing U.S. market access for the products of the Region is the single most important contribution the United States can make to regional development. The original CBI and the CBERA were both premised on this idea. However, in execution, both fell short by excluding textiles, apparel, and other key products such as footwear, from the benefits of these programs. By extending duty-free and quota-free treatment, albeit in a limited fashion, to textiles and apparel and these other products, H.R. 3101 goes a long way to rectifying the CBI's and CBERA's shortcomings. As set forth herein, TAG believes the idea of increased market access for the products of the region should go even further, and has provided recommendations to more fully meet this goal. We urge the Committee to act favorably upon these recommendations and to enact H.R. 3101.

U.S. IMPORTS OF TEXTILES
1983 - 1987
(million dollars)

	1983	1984	1985	1986	1987
Cotton					
CBI	127	198	282	412	636
Total	4,151	5,673	6,284	7,542	9,586
%	3.0	3.4	4.4	5.4	6.6
Wool					
CBI	11	15	25	31	34
Total	1,302	1,940	2,106	2,373	2,411
%	0.8	0.8	1.2	1.3	1.4
MMF					
CBI	252	278	326	390	476
Total	5,495	7,115	7,596	9,097	9,856
%	4.6	3.9	4.3	4.3	4.8
TOTAL					
CBI	390	491	633	833	1,156 1/
Total	10,948	14,728	15,986	19,012	23,469 1/
%	3.6	3.3	4.0	4.4	4.9

1/ Includes new MFA fibers

Source: U.S. Imports of Textiles and Apparel under the Multifiber Arrangement: Statistical Report through 1987 USITC Pub. 2075, March 1988.

Chairman GIBBONS. Well, I thank you gentlemen for your testimony. And the thing I regret again, that the American Fiber and Textile Apparel Coalition was unable to attend.

I would certainly like to not only read their statement but ask some questions. But I am sure that we will have an opportunity to do that somewhere along the line.

And if there is anyone in the audience who represents them, I wish you would convey that message back to them.

I want to say, if there is anybody here from the American Fiber and Textiles Apparel Coalition that we would be happy to hear them. I will stay around on Sunday if they will just appear, or any other day.

Gentlemen, I don't have any questions for you. I think you know where I stand. I am for trying to help create some jobs down there.

I think it will also in the long run create more jobs in the United States.

Mr. Nehmer, you do as well today as you did 20 years ago, and most of us don't do that well, so I am not going to tangle with you any more.

Mr. Frenzel.

Mr. FRENZEL. Thank you very much, Mr. Chairman. And gentlemen of the panel, I thank you all for your testimony.

Mr. Haddad, tell us again how many members are in your group, how many companies you represent?

Mr. HADDAD. The Textile Apparel Group represents over 100 importers and retailers of textile and apparel products. The association which we belong to includes over 1,000 U.S. corporations.

Mr. FRENZEL. Thank you very much.

Mr. Nehmer, you told us about—at the beginning of your presentation, about the distressed nature of your industry. Do you want to embellish that a bit for us, and describe it further?

Mr. NEHMER. Well, Mr. Frenzel, in the testimony that we have submitted we do provide some data on the lost jobs in these different industries.

Between 1982 and 1987, the nonrubber footwear industry lost almost 47,000 jobs; the rubber footwear industry, over 8,000 jobs; luggage industry, 2,400 jobs were lost; personal leather goods and handbag industries lost 11,600 jobs.

These are labor intensive industries, which have already been quite hammered by imports as both you and I know. And I am reminded of the Labor Department forecast of future jobs in the United States between now and the year 2000 which appeared in the Washington Post on September 4th.

According to these forecasts, the luggage, handbags and leather products industry were forecast to lose something like 2¼ percent of its labor force each year from now until year 2000.

The nonrubber footwear industry, according to the Labor Department forecast, will lose some 3¾ percent of its labor force each year from now until the end of the century; and this is without any change in the CBI legislation.

One of the big issues, for example, for the footwear industry with regard to the Caribbean Basin legislation that is being proposed is the fact that the Caribbean Basin is a major, very large supplier of footwear uppers.

The footwear uppers are duty free today, coming into the United States. The domestic industry imports these imported uppers; and it does assist their competitive position.

But if you make the footwear duty free through the different provisions that are included in H.R. 3101, then the Caribbean countries will very easily shift to the manufacture of completed shoes.

So we have a situation where industries are already hurt; they will be hurt more if this legislation is passed.

Mr. FRENZEL. Thank you for that. I did hear that when you made it as part of your testimony, and I heard the import penetration figures you gave.

What I was looking for was some sales and profit figures from your industry. Many American industries have lost jobs; many have gained jobs.

Some people call that process restructuring as the industries become more efficient and more competitive, to be able to operate in relatively less restricted markets, and to operate in markets all over the world.

And I was wondering how the industries you represent are doing.

Mr. NEHMER. Most of the companies, other than in the nonrubber footwear industry, but even there, are privately held companies. Their information is not available publicly.

But we know in the case of nonrubber footwear, where the International Trade Commission found, although President Reagan did not agree, that imports were a substantial cause of financial injury to the domestic industry.

I can tell you, sir, that from what I hear from different companies in these industries, they are, by and large, not doing well. There may be exceptions to that, but what I am saying to you is, if you have industries that are already so heavily import impacted, why increase the burden on them by legislation of this type?

If it is a question of employment here or in the Caribbean, it seems to me this Congress has no choice but to take steps to enhance employment in this country and not in the Caribbean.

Mr. FRENZEL. That is your point, with which I didn't agree.

Mr. NEHMER. I understand, sir. We've debated that for several years.

Mr. FRENZEL. More than a few. The intention of the authors was that the imports were more likely to replace imports from other places than from U.S. production.

And we haven't seen a lot of evidence to the contrary.

Mr. Chairman, I yield the balance of my time.

Chairman GIBBONS. All right. Let me ask you, do you plan to come back, or do you have time to come back today, or what are your plans?

Mr. FRENZEL. My plans are that I can come back?

Chairman GIBBONS. You can?

Mr. FRENZEL. It's not my first choice of things to do.

Chairman GIBBONS. What time would you suggest?

Mr. FRENZEL. I'd like to come right back.

Chairman GIBBONS. All right, we will do that.

Mr. FRENZEL. I have maybe another 45 minutes.

Chairman GIBBONS. All right, fine. We will go vote and come right back. Thank you very much.

[Recess.]

Chairman GIBBONS. All right, let us get started if we can, ladies and gentlemen. Next we have the CBI Sugar Group; we have the American Sugar Alliance; and we have the Sweetener User Association.

And I will throw no puns at the witnesses. Let's see, Julio, are you going to be first?

STATEMENT OF JULIO HERRERA, PRESIDENT, CBI SUGAR GROUP

Mr. HERRERA. Mr. Chairman, thank you very much for the opportunity to appear before your committee.

My name is Julio Herrera, President of the CBI Sugar Group, an organization representing both the public and private sectors of the sugar industries of the 12 Caribbean Basin producing countries.

I am especially honored to appear before you, Mr. Chairman, because no Member of Congress has consistently been more diligent in trying to help the CBI countries.

Your understanding of the sugar issue has been indispensable, and we have been very grateful for the leadership you have shown on all the issues affecting the CBI countries.

All of us are here to try to make the Caribbean Basin Initiative work. The main reason it has not reached all of its goals has been the U.S. sugar policy, which has taken away more trade than the CBI has been able to generate in new, nontraditional fields.

I would like to emphasize the importance of sugar to our region. It is, in certain countries, such as the Dominican Republic and Belize, the principal generator of foreign exchange and employment; and generally, the second most important crop in our area, so we stress the absolute necessity of adequate access to the U.S. market in order to maintain political, economic and social stability.

Everyone is familiar with the drastic cuts in the U.S. quota program—more than 75 percent since 1984. I know that the Members of this committee are familiar with the economic devastation that this has caused in the Caribbean countries.

From 1979 to 1981, the CBI countries averaged about 1.6 million tons of sugar exports to the United States. With the recent cuts, that level of access was reduced to 346,000 tons for 1988. We have depended for a long time on the U.S. sugar market—our closest geographical and traditional customer—and have been reliable suppliers of sugar, even when world prices have been higher than U.S. prices.

As Caribbean producers, we recognize that this issue is a complicated one for the U.S. Congress and the U.S. sugar producers. We also recognize that the major culprit, as far as the collapse of the world sugar market, has been the European Community's heavy subsidization of their sugar exports.

Because of worldwide increase in demand, particularly in Russia, China and the United States, and the drought that has hit the beet producing areas of the United States, we have had some relief in recent months. World prices are up, and because of the shortage situation here in your country, the Reagan Administration increased the quota for this year by 300,000 tons. Each quota-holding country will receive a proportionate share of that increase. The CBI has about 35 percent of the total.

But the committee should not be blinded by this temporary, short term relief. In the first place, the increased quota is relatively small when compared with the severe cuts of recent years, and in the second place, the same vicissitudes of weather and world supply and demand could change very quickly to our disadvantage.

There are several factors which the United States Congress must keep in mind when addressing the sugar issue. Despite what you may have heard of the potential for Caribbean countries diversifying their agriculture to other crops, sugar remains by far the most valuable and reliable agricultural commodity in the region. Our countries diversifying and attempting new economic approaches in a variety of areas, from textiles to manufacturing to tourism. But the bottom line is that there is no substitute for the foreseeable future for traditional exports. Entire villages and cities and regions are totally dependent on sugar for their livelihood. So the notion that the CBI countries can make do without sugar is an illusion and a dangerous one.

So long as the world market remains a dumping market, the CBI sugar industries must have a guaranteed level of access to the U.S. market in order to survive. With world prices much lower than our cost of production, and with limited internal markets, we have kept industries functioning only by mixing the world price with what we get in the United States, and becoming increasingly efficient and competitive. We are not subsidized. And in the past four years we have seen many of our mills close down forever, causing the loss of some 350,000 jobs.

To its credit, the domestic U.S. producers have recognized the critical importance of U.S. market access to the CBI countries, and they have worked with us on a variety of approaches to increase and guarantee that access. Last year Congress passed a sugar re-export program for the CBI in the Philippines, which had no budget impact, and would have sent a clear message to the European Community that the United States was going to attack their policy so as to negotiate away this type of tactic.

Unfortunately, the Administration refused to implement the program, despite, I must add, the strong urging from the Chairman on this point. We have sought to curtail the importation of sugar containing products which merely circumvent the quota; but we have yet to get any relief there. Senator Graham has pursued a concept on reserving any increases in the quota for countries with per capita incomes of $1,500 or less. In all of these endeavors we had the support or acquiescence of the domestic U.S. producers.

Time is running out. The CBI sugar group has been coming to Washington for almost four years now. We meet with almost uniform sympathy and understanding. Everyone realizes the critical national security implications of economic hardship and unrest in the Caribbean. Everyone agrees that the CBI countries have historically been the major supplier of foreign sugar to this country. And almost everyone says they want to help.

Today we have heard that the main problem lies in GATT retaliation, and hopefully, in two years, there might be the possibility of an improvement.

I would like to remind the Administration that when it wanted to overcome GATT criticisms, it did so with regard to Nicaragua and South Africa's quotas; now it cannot.

For one reason or another, we have not yet achieved what is essential: a guaranteed adequate level of access which will provide stability to the sugar industries of the Caribbean while not harming the U.S. producers.

I am absolutely convinced that this goal is achievable. Certainly this legislation is the most forthright statement yet made about what must be done. It sets a goal of restoring CBI access to 1984 levels, and it seeks to guarantee that level of access.

Mr. Chairman, if we can figure out a way to accomplish that goal, we will have solved a problem that has eluded well intentioned people throughout Washington and the Caribbean for five years now.

Speaking for the CBI Sugar Group, Mr. Chairman, we want to congratulate you for your legislation, H.R. 3101. It certainly would solve our problem. We know that it will take a lot of hard work to figure out how to bring it about, but we pledge to you our wholehearted efforts to help you arrive at a solution that is both feasible and politically acceptable to all of the affected interests, concentrating on what is necessary, effective and possible.

Thank you.

Chairman GIBBONS. Thank you very much.

And now Mr. Ravnholt.

STATEMENT OF EILER C. RAVNHOLT, CHAIRMAN, AMERICAN SUGAR ALLIANCE

Mr. RAVNHOLT. Mr. Chairman, I appreciate the opportunity to appear before you and Members of this committee.

My name is Eiler Ravnholt, and I am vice president of the Hawaiian Sugar Planters Association. I appear here today, however, in my capacity as chairman of the American Sugar Alliance.

The American Sugar Alliance is a coalition which includes all of our nation's sugar beet, sugar cane, and corn farmers, and also represents the processing companies that process American sugar beets and sugar cane, and a majority of the American corn sweetener industry.

In addition, we represent the organized workers whose employment is dependent on those industries.

We are united in our opposition to Section 10 of the sugar title of H.R. 3101, the Caribbean Basin Economic Recovery Act of 1987.

We oppose it because we believe that it seriously threatens the future of the U.S. sugar program upon which our economic welfare depends.

That program is threatened because Section 10 would destroy the no-cost provision in the current program. If we are to mandate sugar imports from Caribbean countries in excess of our market's needs, this will result in the forfeiture of large quantities of domestically produced sugar under loan to the Commodity Credit Corporation, and this would be very costly to the American taxpayer, and to other agricultural commodity producers dependent upon CCC funding.

A stated objective of the Caribbean Basin Initiative was to encourage economic diversification so as to avoid reliance on traditional crops in world surplus supply such as sugar.

Section 10, if enacted, would encourage increased reliance, and therefore run counter to that objective.

Why has the access to the U.S. market been reduced as it has? This has really happened because of the advent of a new commodity on the U.S. market, high fructose corn sweetener.

In the last decade, that has increased from 1.4 million tons to 5.9 million tons. This has of course reduced the market for sucrose in the United States. And this is the major reason that we today import less sugar than was the case prior to the enactment of the current sugar program.

The American Sugar Alliance has been supportive of efforts to promote the economic welfare and political stability of the Caribbean Basin countries.

We tried to be of help through our support of the legislative proposal which was adopted as part of the continuing resolution last December, known as the Inouye amendment, which would have provided for the import of some 400,000 tons of sugar; 290,000 from the Caribbean Basin, and 110,000 from the Philippines.

The difference between the import price, that is the U.S. price, and the export price, the world price, which today is roughly half what the U.S. price is, would be made up by using generic commodity certificates under the export enhancement program.

That measure was adopted, and the Administration refused to implement it. It is, however, still alive today. It is in the Senate version of the Agriculture appropriations bill for 1989, and we certainly invite and encourage the committee's support of that measure, which we hope will survive that conference.

It is discretionary in this case. There is the problem of budget impact. It was designed at the 400,000 ton level, because that was roughly the amount of sugar that could be brought in and re-exported with the funds that were prior to this year being expended through the Section 416 commodity program.

We would not be doing something very unique if we went forward with that program. In fact, we would be doing something which the European Economic Community has been doing for a number of years, since 1972, I believe it was, when under the Lome Convention, they agreed to import some 1.4 million tons of sugar from former colonies under the Lome Convention. The EEC pays them the price which sugar commands in the European community, which exceeds the price support level in the United States, and then they reexport that sugar, or export a similar quantity of sugar, with heavy subsidization.

In fact, as Julio has mentioned, the European Economic Community has been principally responsible for the dire circumstances which have been visited on countries which have been heavily reliant on sugar exports into the world market as a result of the EEC common agriculture policy, which has increased their production and made them the biggest exporter onto that world market in the last decade, whereas prior to 1976 they were a major importer of sugar.

We are concerned, Mr. Chairman, with the support that the large industrial users in the United States have given to bringing in more sugar into the U.S. market.

There is no shortage of sugar on the U.S. market. The current prices are near the minimum necessary to avoid forfeitures of sugar now under loan.

It is difficult for us to see how the situation would be improved for countries like the Caribbean if the sugar users proposal, which would have that sugar come in at a reduced price—at a price, in fact, that would be below the price of anybody's cost of producing that sugar—would be of help to the economies of those areas.

We are naturally concerned with anything that would tend to replace our own domestic production of sugar. This is one of the few bright spots in American agriculture. We have areas of this country which are very heavily dependent upon sugar for their agricultural welfare, and we have been able to secure the economic survival of small towns and rural farms in the 17 States that are heavily dependent upon, or in which sugar is an important crop.

We have, of course been of major benefit to the American corn producers, as well. It would be impossible for the American corn producers to compete with the price of sugar on the world market using it as sweetener. So that has been another development.

We welcomed Ambassador Yeutter's statement that sugar must be dealt with multilaterally in the Uruguay Round. We were, I believe, the first of the commodity groups, if not the only one, to support the idea of worldwide free trade in agriculture.

All we ask is that we not be sacrificed unilaterally for the benefit of producers elsewhere in the world. We are average cost world producers, or very close to it. We have a cost of production that is very close to the average cost of production in the Caribbean countries as well.

That completes my summary.

[The statement of Mr. Ravnholt follows:]

Testimony of Eiler C. Ravnholt
Chairman, American Sugar Alliance
before the Subcommittee on Trade
Committee on Ways and Means
September 15, 1988

Mr. Chairman, my name is Eiler Ravnholt and I am the current Chairman of the American Sugar Alliance. I am also Vice President of the Hawaiian Sugar Planters' Association, but today I am speaking on behalf of the Alliance, a coalition which includes more than one million American beet, cane, and corn farmers. The American Sugar Alliance (ASA) also represents sugar and corn sweetener processing companies, many suppliers to the nutritive sweetener industry, and the thousands of Americans who work for and depend on our industry. Our members are united in our efforts to preserve a strong domestic sweetener industry in an international climate of distorted trade - including embargoes, subsidized production and subsidized dumped sugar exports. The ASA seeks to protect American farmers and workers from such subsidized dumped imports which threaten the very economic survival of our members. U.S. sugarcane and sugarbeet and corn producers are efficient world producers who can compete successfully with other world sweetener producers, but we will not willingly sacrifice our American market, our industry, and our jobs to foreign producers backed by the treasuries of foreign governments.

Section 10 of H.R. 3101, if enacted, would result in a major budgetary cost. By increasing sugar imports from the Caribbean Beneficiary Countries by almost 800,000 tons, as this bill provides, we will have to take an equivlent amount of sugar from other sources off the market in order to avoid forfeitures.

The only alternative for reducing supplies from domestic sources would be to exclude imports from all other exporters to the U.S. market and it should be noted that minimum imports from CBI countries, as provided in this measure, would exceed this year's total imports. The American Sugar Alliance has not taken a position on where our sugar imports should come from, but we would point out that a number of other historic suppliers, such as the Philippines, may be no less deserving of a share of the U.S. market nor less vital to our foreign policy considerations than the Caribbean Beneficiary Countries addressed in this legislation.

The members of the American Sugar Alliance are united in their support of the current sugar program. It has been a successful program, one which operates at no cost to the government by limiting total imports of sugar sufficiently to maintain a U.S. price above the U.S. support level and thereby make sales to the market preferable to forfeitures to the CCC. A mandated increase in imports of the magnitude contained in H.R. 3101 will, in the absence of an embargo on imports from all other sources, result in the forfeiture to the Commodity Credit Corporation of an equivalent quantity of domestically produced sugar at a cost to the government of some $228 million annually.

We can understand the desire of CBI countries for sales to the U.S. market equal to or greater than those which were made in fiscal 1984. But we must ask why they are now less. In fiscal 1984, total U.S. imports were some 3,175,000 tons raw sugar. For the current fiscal year they are 1,054,000. Why have we had such a precipitous drop in imports? In part it is because the 1983 U.S. crop was the smallest in modern history. Domestic production in fiscal 1984, the lowest in this decade, was some 5.814 million short tons raw value compared to an average of 6.228 million tons during the 1980's and 7.225 million tons this current fiscal year. For 1989, there may be a further small increase in imports due to the drought which is likely to reduce this year's domestic production by more than 200,000 tons.

In the meantime, the U.S. market for domestically produced corn sweetener, particularly high fructose corn syrup, has expanded from 1.35 million tons in 1978 to 4.3 million tons by 1984 and to 5.91 million tons in 1988.

U.S. produced HFCS is the world's lowest cost nutritive liquid sweetener at the price corn has been selling for in the U.S. market and with the present market for byproducts. It is a product which would have developed in competition with Caribbean produced sugar without the U.S. sugar program, although the necessary investment would not have been as readily available given the depressed price of sugar on the world market. While HFCS can compete with sugar produced anywhere in a free market, it cannot compete with the dumped subsidized sugar on the so called "world free market", a market on which prices were driven down to an average price of 4.06¢ per pound for 1985.

The advent of HFCS as the dominant sweetener for the soft drink industry in the U.S. has been a problem for sugar producers worldwide. However, from a public policy perspective, the utilization of some 535 million bushels of corn for sweetener use in the U.S. has been a real boon. It has meant about 25¢ per bushel increase in the market price of corn in the U.S. The Department of Agriculture recently estimated increased government spending on corn price supports without the HFCS market at $500 to $700 million a year.

The Congress, by enacting the Caribbean Basin Economic Recovery Act (CBI) back in 1983, sought to strengthen CBI economies by providing trade benefits to the region. The Congress at that time also recognized the impact of the decline in traditional industries in the Caribbean region and sought to offset that decline through incentives to diversify production away from traditional export commodities, according to Ways and Means Committee Report 100-9 filed by the Subcommittee on Oversight on May 6, 1987, and following an on-site inspection of the area.

At this hearing, there will be a great deal said about the extent to which certain CBI beneficiary countries have historically depended on sugar exports for foreign earnings. It is regretably true that sugar prices on the world market are the most volatile of all internationally traded commodities and it is a commodity that is regularly produced in surplus around the globe. It was, as noted above, the intent of the Congress in enacting the CBI legislation to stimulate diversification away from such commodities - particularly sugar - and to that extent, at least, the program has had some measurable success. In 1984, the first full year the CBI was in effect, total CBI sugar production was some 4.2 million short tons. For the 1987-88 season, the U.S. Department of Agriculture estimates CBI sugar production will approximate 3.7 million short tons, a reduction of 500,000 tons.

CBI Sugar	1984	1987/88
Total production	4,183,000 strv	3,681,000 strv
Total exports	2,521,400 strv	2,068,000 strv
Exports to U.S.	1,166,288 strv	350,690 strv
Value of exports to U.S.*	$414,032,240	$126,248,400
Total non-U.S. shipments	1,355,100 strv	1,717,300 strv
Value of non-U.S. shipments**	$142,285,500	$343,460,000

* based on 17.75¢ loan rate for 1984 and 18.0¢ for 1988
** based on average world price of 5.25¢ in 1984 and 10¢ in 1988

The values are estimates which understate the returns because six of the CBI countries are signators of the Lome Convention, the agreement with Atlantic, Caribbean and Pacific (ACP) former colonies that allows them to ship specified amounts of sugar to the European Community at prices usually well above the U.S. and world market prices.

The simple fact of the matter is CBI sugar exports are down and so, commensurably, is their income. They want a larger share of the U.S. market - at the premium U.S. price - and H.R. 3101 is designed to give it to them. The "premium" U.S. price is particularly important, Mr. Chairman, because, according to a USDA staff analysis prepared by the Economic Research Service, the average cost of producing raw cane sugar in the CBI was 19.6¢ per pound in 1982, a cost very close to the average cost of producing raw cane sugar in this country.

I think it's understandable that we, as U.S. producers, want to keep our market and rely on foreign producers for our residual sugar requirements. And it's clear, increased reliance on off-shore producers as opposed to American producers of this vitally important commodity is not in the best interest of American consumers.

Consider the following. Section 10 of H.R. 3101 would increase Costa Rica's quota from the current 17,583 ton level to 62,415 tons. Costa Rica's current production, according to USDA, is some 200,000 tons while their domestic consumption is at 170,000 tons. They don't produce enough to fill even half of the increased quota provided by this bill.

Haiti's current quota is 7,500 tons. Their quota under H.R. 3101 would be 16,776 tons, but they only produce 40,000 tons and they consume 72,000. Right now that country is importing some 35,000 to 40,000 tons of sugar a year, but H.R. 3101 would more than double their access to the U.S. market.

Panama's quota would go from 26,390 tons currently to 88,218 tons under H.R. 3101, but Panama currently produces 125,000 tons and consumes 80,000 tons. They could meet the additional quota only by importing sugar and this would also be true of Trinidad/Tobago which now imports almost 20,000 tons to sugar a year. They produce 80,000 tons and consume 64,000 tons, but H.R. 3101 would increase their quota from 7,500 to 21,294 tons.

H.R. 3101 and GATT

Article I of the General Agreement on Tariffs and Trade provides that any tariff concessions or benefit granted one country must be extended to all GATT signatories. As members of this Committee are aware, it was necessary for the U.S. to get a waiver under GATT in order to implement the Caribbean Basin Initiative. After members of the Ways and Means Committee Subcommittee on Oversight visited the Caribbean last year, the Subcommittee asked the Congressional Research Service of the Library of Congress to review the CBI and its interrelationship with various relevant U.S. laws and international pacts. This review is contained in the Committee's report (WMCP: 100-9) and includes the following:

"U.S. membership in the GATT does, however, place certain limitations on the United States' ability to reallocate sugar import quotas among other GATT signatories. Article XIII of the General Agreement prohibits discriminatory applications of import quotas with respect to any product. Section 2 of the Article specifically requires that, in the allocation of import quotas of a product among exporting countries, the import-restricting country shall aim at a distribution of trade in such product approaching as closely as possible the shares which the various contracting parties (i.e., GATT signatories) might be expecting to obtain in the absence of such restrictions.'"

Thus, it is clear. From the standpoint of the Congressional Research Service, at least, that H.R. 3101 would be a violation of Article XIII of the GATT at a time when very difficult and intense negotiations for the extension of the Agreement are underway. In that regard, Mr. Chairman, I should like to point out that the U.S. sweetener producing industry was the first, if not the only, commodity group that has endorsed the Administration's goal of doing away with all tariff and non-tariff barriers, export subsidies, production and consumer subsidies and all other impingements on the free trade of agriculture commodities by the year 2000. We ask only that these changes be instituted simultaneously on a global basis.

Country-by-country sugar quota allocations are not new, of course. They were an essential feature of the Jones-Costigan Act that was the center of this nation's sugar policy from 1934 to 1974. Nor is the discriminatory application of these as used by the Administrative and legislative branches of our government to reward friends and allies and as retribution against countries whose policies and activities did not meet our nation's standards or approval, new. Historically, we domestic sugar producers have concerned ourselves only with the ever-popular "bottom line" - the total amount of sugar to be imported. By mandating more than one million tons sugar be imported each year from the Caribbean, H.R. 3101 will, for the first time, establish U.S. producers as residual suppliers to the U.S. sugar market.

Efforts to Assist Caribbean Producers

We are not unmindful of the needs of our Caribbean neighbors and their strong desire to increase trade with the United States. As an industry, we have tried to be of help. We supported a provision in the 1988 Continuing Resolution which would have increased U.S. sugar purchases by 400,000 tons: 290,000 from the Caribbean countries and 110,000 from the Philippines. This sugar was to be purchased at the prevailing U.S. price and then refined with an equivalent quantity to be exported back onto the world market at the prevailing world price. Any loss was to be made up by the issuance of generic commodity certificates. This provision, known as the Inouye

Amendment, was attached to the Foreign Operations portion of the Reconciliation package in lieu of the Section 416 commodity distribution program. The measure had strong support from the domestic sweetener industry and from members of both parties in the Congress.

However, the Administration has refused to implement the provision. It has done so on the basis of inadequate authority and opposition to the concept. In the report cited above, the Ways and Means Subcommittee on Oversight recommended an import-reexport program as part of the solution to this region's special needs. We encourage your increased and continuing support for that approach.

EEC and Sugar Trade

The concept of preferential purchase from countries with whom we enjoy a special relationship with reexport of a like amount is not new. It is a policy which has been pursued since the early '70s by the EEC member countries under the Lome Convention. Under provisions of the Lome Convention the EEC countries assist former colonies through the purchase of some 1.4 million tons of sugar at the internal EEC price and sell it with heavy subsidy into the world market in competition with sugar from the non Lome exporting countries such as the Dominican Republic. Six of the signator Atlantic, Caribbean and Pacific (ACP) countries are Caribbean Beneficiary sugar exporting countries.

The Inouye Amendment has a new lease on life. The language has been clarified to meet Administration objections, and it has been made part of the Senate passed Agriculture Appropriations Bill presently in conference for the 1989 fiscal year. The current Administration has adamantly opposed the voluntary authority provided therein despite the fact that it would help our Caribbean neighbors and despite the fact that it would pressure the EEC to change its sugar policy, a policy which, more than any other, has been responsible for the collapse of the International Sugar Agreement and depressed world sugar prices which have resulted in reduced earnings for sugar exporting countries. While development of HFCS has reduced U.S. demand for sugar from the world market, it is the rapid expansion of heavily subsidized EEC exports to that market which has so severely depressed world prices. A major net importer unitl the mid 1970s, the EEC has, under its Common Agricultural Policy (CAP), become the biggest exporter to the world market.

Since 1981, the price of sugar on the world market has been well below the cost of production of even the most efficient producers. Yet world production continues to increase. These increases in production occur in large part due to the national policies of major sugar producing countries to protect their sugar producers from the impact of the world market price on a good share of their production. The world market becomes the residual market, the market where the sugar surplus of the countries' internal needs and special bilateral markets such as are provided by the U.S. quota or the Lome Convention, is sold. Increasing the volume of guaranteed sales to the U.S. market is, therefore, very attractive when contrasted with sales on the very volatile and most often very depressed world market. We understand the attraction an increased minimum quota at the guaranteed U.S. support price has for the sugar producing countries of the Caribbean.

Sweetener Users Association Interest

We have more difficulty understanding the interest of the members of the Sweetener Users Association in this provision. H.R. 3101 increases sugar imports from the Caribbean countries, but it does not change the price support level for sugar in the United States. Could it be that the large industrial users of sugar see a potential for increasing the pressures to lower the sugar support level if H.R. 3101 is adopted? Is it their view that if they can just get the sugar program to cost money, government dollars, they can then get the Congress to trim the support level? Certainly the budgetary pressures resulting from the almost $300 million expediture required to take the volume of domestically produced sugar off the market equal to the increased imports will cause problems not just from the budget balancers, but also from the other agricultural commodity groups who would be loath to see the sugar program dipping into the scarce pool of CCC funds which support their programs and on which their producers must rely.

U.S. Sugar Program Works

We are concerned about the continuing attacks on our sugar program. It is a program which has worked very well from the view point, not only of the domestic sugar producers, but also from the view point of the American corn growers, corn sweetener producers, the taxpayers, and the American consumer.

At a time when much of American agriculture has been devastated with declining income and increased costs, America's sugar farmers have been blessed with price stability. The price stability has permitted increased productivity to cover the increases in costs and the reduction in the real value of our 18¢ support level which results from inflation.

The cost of sugar to the American consumer is actually lower than it was in 1981 when the current program was adopted with a 17¢ loan level. The American consumer should also have profited from the substitution of the lower cost and lower priced HFCS in the liquid sweetener market. Unfortunately, it appears that those cost savings are too frequently retained in the form of higher profits for huge soft drink companies rather than being passed on to the American consumer.

On behalf of the American Sugar Alliance, I wish to express appreciation for the opportunity to testify. We are sympathetic to your purpose, the improvement of the economy and increased political stability in the countries of the Caribbean. We are opposed, however, to Section 10, the sugar section of H.R. 3101. We cannot support the improvement of the sugar economy in the Caribbean at the cost of displacing our own sugar and corn sweetener industry, whether it is our industry in Florida, Hawaii, Illinois, Minnesota, or Texas or one of the many other states where sugar or corn sweetener is produced.

Chairman GIBBONS. Thank you very much. And we will put the whole statement in the record.

Now, Mr. Tipton.

STATEMENT OF E. LINWOOD TIPTON, MEMBER, BOARD OF DIRECTORS, SWEETENER USERS ASSOCIATION

Mr. TIPTON. Thank you, Mr. Chairman.

I appreciate the opportunity to testify before the committee. My name is E. Linwood Tipton, and I am president of the International Association of Ice Cream Manufacturers, and the Milk Industry Foundation, and also, a director of the Sugar Users Association. And it is in that capacity that I am appearing today.

I am accompanied today by Tom Earley of Abel, Daft & Earley, which is a consulting firm advising the association, and helping us with economic analysis.

Mr. Chairman, the Sweetener Users Association is an organization representing those companies which use about three fourths of all of the sugar that is consumed in the United States.

And it consists of the companies as well as the trade associations that represent those major using industries.

We want to applaud you, Mr. Chairman, Congressman Pickle, and others on the committee, for recognizing the adverse effects the domestic sugar program is having on our Caribbean neighbors, and for taking the initiative to provide for the necessary relief.

H.R. 3101—by the way, Mr. Chairman, excuse me, but if you would copy my statement in the record as we submitted it, I will try to summarize part of it.

Chairman GIBBONS. Yes, we will with all of them.

Mr. TIPTON. Thank you.

H.R. 3101 is an important first step required to restore the balance and fairness to the Nation's sugar policy. It would require the establishment of quotas for the CBI beneficiary countries at their 1983-84 levels.

That would be raising them from a level of about 356,000 tons to a level of about 1.124 million tons. It's about a 770,000 ton increase.

We fully support this increase. However, there are many other countries in Latin America, in Asia, in Africa, and others who are also caught in a very serious problem as a result of the domestic sugar policy.

Therefore, the Sweetener Users Association favors legislation that would increase the quotas for all sugar exporting countries currently holding U.S. sugar quotas, and not for just this one group.

Section 10 of the legislation does not specifically state the manner in which the quotas for the CBI countries would be expanded. The amount of quota that would be required when added to the existing quota would—the amount of the increase that would be required—would raise the quota far in excess of the actual total quota now available for all countries.

We understand, Mr. Chairman, that you do not intend to eliminate the quotas for the non-CBI countries, but rather you were contemplating an increase for the CBI countries, and thereby, would have increased the total quota.

We believe there are two problems associated with the bill. One relates to the cost. The quota that we believe would be called for under the bill would exceed 1.8 million tons. That is about 800,000 tons above the current quota.

And if that 800,000 tons did result in forfeitures to the CCC, that would probably cost about $300 million, plus the storage costs for the sugar that was forfeited. So one of the problems that we foresee is that the bill does, in its present form, incur some rather significant budgetary costs.

The other thing which has been referred to by each of the witnesses, including Ambassador Yeutter, is the GATT problem. I would like to take just a moment and quote from a couple of paragraphs that were in the GATT decision of February 15, 1985.

And I quote: it says, any action in pursuance of the CBI act, which might cause adverse effects on the sugar trade of contracting parties—excuse me, I should have started a little earlier there.

It is specifically stated, the United States government would give assurances that it did not envision "any action in pursuance of the CBI act which might cause adverse effects on the sugar trade of contracting parties who are not beneficiary countries."

And then it goes on to say in another section, the government of the United States shall ensure that this waiver will not be used to contravene the principle of nondiscriminatory allocation of sugar quotas.

So this, I think, is a very direct problem. And it is obviously recognized by everybody as a problem.

There have been a number of comments and statements about how the United States sugar program gives exporters a premium price on the relatively small amount of the quota that is actually available to them.

However, it must be recognized that the reduction in the sugar quotas in the United States have had an extremely adverse effect on the world market, and one must take into consideration the effect of that depressant on the world market when looking at the net effect.

Presently, U.S. quota holders are shipping approximately a million tons of sugar to the United States, and they're selling about 11 million tons of sugar onto the world market.

If the world market price were depressed by 2 cents, on the 11 million pounds that they are selling into the world market, that would more than offset the total revenues they are receiving from their sales in the United States.

I think about everyone would agree that the world market price has been depressed by more than 2 cents. And there are some very reputable studies that have that as high as 4½ cents.

So I think that when one analyzes that carefully, it is not a benefit to the present quota holders.

Mr. Chairman, we would like to suggest that there may be another alternative to correct what may be some problems with the bill. And that is some bipartisan legislation that was introduced by Members of this committee, Tom Downey and Bill Gradison, H.R. 3646.

This legislation would gradually reduce the current raw sugar loan rate from 18 cents to 12 cents over the next 4 years, and would set a floor on imports; and that floor would increase by 500,000 tons a year.

Now, that would mean that the quota, instead of being one million tons, would be three million tons by the end of that 4-year period.

This, we believe, would be of great benefit. It would restore the quota not only for the Caribbean nations, but would restore the quotas for all other countries who were importing to the 1983–84 level.

It happens to be that that is an amount that would correspond to bringing the CBI countries to the amount that is specified in your bill, sir.

It also solves the problem of cost, because under that proposition, the decrease in the price would result in additional consumption as well as probably decrease some domestic production.

And the net effect would be that the government would not be acquiring sugar, and the amounts of sugar that would be imported from foreign sources would increase.

And it also, of course, avoids the GATT problem, because the quota would be uniformly applied to all importers.

So we would commend that for your consideration.

If it were adopted, it would increase rather substantially the amounts of income that the foreign countries would receive. Currently, as I said earlier, they earn about $400 million on the 1 million tons that they are allowed to ship to the United States.

If the United States were to cut the domestic loan rate to 12 cents, which would actually be a market price of about 15 cents, which is a level well above the world market price, and at the same time, triple the volume that could be imported to 3 million tons, the aggregate earnings on the sales to the United States by the foreign suppliers would be more than doubled to approximately 810 million.

Moreover, earnings on the world market sales would also be strengthened, and that would add about another $400 million. And therefore, the total increase to the foreign suppliers would be about $800 million.

Mr. Chairman, in conclusion, we applaud your efforts, and commend you for recognizing the problem. And it is a serious problem, and needs to be addressed before irreparable harm is done.

We would commend to you a look at the bill that was just described that was introduced by Mr. Downey and Mr. Gradison.

I would like to add one other thought before I conclude my remarks. And I just thought of it as Mr. Ravnholt was talking.

A number of statements have been made about how the Sugar Act is of such significant benefit to corn growers in the United States. And the fact of the matter is, it is a benefit to corn growers.

But also, the fact of the matter is that if the Downey-Gradison type of proposition were adopted, that the corn growers in the United States would not be harmed at all.

They would still sell the same amount of corn that they have been selling to the corn refiners; the corn refiners share of the sweetner market would probably not be changed very much; and the impact would be largely on the corn refiners, margins, not on the corn growers.

Corn growers would get the same price; they would get the same amount of income; they would sell the same amount of corn that they are currently selling.

Thank you, sir.

[The statement of Mr. Tipton follows:]

BEFORE THE
SUBCOMMITTEE ON TRADE
COMMITTEE ON WAYS AND MEANS
U.S. HOUSE OF REPRESENTATIVES

STATEMENT ON H.R. 3101, THE CARIBBEAN BASIN ECONOMIC RECOVERY EXPANSION ACT OF 1987

The Sweetener Users Association is pleased to have the opportunity to present its views on H.R. 3101, the Caribbean Basin Economic Recovery Expansion Act of 1987. We will confine our remarks to Section 10 of this legislation, pertaining to the restoration of the import quotas for Caribbean Basin Initiative (CBI) beneficiaries.

For the record, I am E. Linwood Tipton, a director of the Sweetener Users Association and President of the International Ice Cream Association/Milk Industry Foundation. The Sweetener Users Association represents food and beverage manufacturers which utilize approximately three-quarters of all nutritive sweeteners consumed in the United States, and the trade associations representing such companies. We support legislative or administrative actions that would result in a more market-oriented domestic sweetener price and an adequate and reliable supply of domestic and foreign sweeteners.

We applaud Chairman Gibbons, Congressman Pickle, and others on the Committee for recognizing the adverse effects that the domestic sugar program is having on our Caribbean neighbors, and for taking the initiative to provide the necessary relief.

The Caribbean Basin Economic Recovery Expansion Act of 1987 is an important first step in bringing fairness back to the nation's sugar policy. This legislation would require that the sugar quotas for the CBI beneficiary countries be returned to their 1983/84 levels. Under the quotas now in force, this would allow for imports from the CBI region to increase from approximately 356,000 tons to 1.124 million tons.

Mr. Chairman, in the initial invitation to comment on the provisions of H.R. 3101, interested parties were encouraged to offer other suggestions to accomplish its objectives. We fully support the goal of restoring sugar quotas for the CBI nations. However, we wish to make a few comments concerning Section 10 of this legislation and to provide you with an alternative way to deal with the problems caused by the domestic sugar program.

We support increasing the quantity of sugar imported from CBI beneficiary countries to the 1983/84 level. However, many other countries in Latin America, Asia, and Africa, have also been adversely affected by the domestic sugar program. Therefore, the Sweetener Users Association favors legislation that would increase the quotas for all sugar-exporting countries currently holding U.S. sugar quotas, not just for one group.

Section 10 of this legislation does not specifically state the manner in which the quotas for the CBI beneficiary countries would be expanded. The level to which the CBI quotas will be increased under this legislation is larger than the total 1987 or 1988 calendar year quotas for all sugar-exporting nations combined. We understand that you do not intend to eliminate the non-CBI sugar-exporting countries' quotas, but rather contemplate increasing the CBI countries' quotas above current levels.

Potential Cost and Trade Problems

This proposed legislation raises two important questions:

(1) Cost: If the CBI quotas are increased by the amount stated in Section 10, this would bring the entire sugar quota to a level exceeding 1.8 million tons (given 1988 quota levels). Most observers believe this would be an excessive supply. If, for example, it resulted in forfeitures of 800,000 tons of domestic sugar to the Commodity Credit Corporation (CCC), the federal budget cost would be about $300 million initially, plus subsequent storage costs. Since the current sugar program is to be run at "no cost" in terms of forfeiture of domestic sugar, this issue necessarily needs to be addressed.

(2) GATT: If CBI country quotas are to be increased while leaving non-CBI quotas at their current level, it is likely that such an action could bring the United States under a GATT challenge. Currently, the United States is already faced with a GATT complaint that the U.S. sugar quotas violate world trade rules.

Moreover, the members of this Committee will recall that the GATT decision of February 15, 1985, concerning the U.S. Caribbean Basin Economic Recovery Act specifically stated that the United States government would give assurances that it did not envision "any action in pursuance of the [CBI] Act which might cause adverse effect on the sugar trade of contracting parties who are not beneficiary countries." Further, the GATT, in granting a CBI waiver under the provisions of paragraph 5 of Article XXV of the General Agreement, stated that "The Government of the United States shall ensure that this waiver will not be used to contravene the principle of non-discriminatory allocation of sugar quotas."

Global Impact of the U.S. Sugar Program

It has been stated that the U.S. sugar program gives exporters a premium price on the relatively small amount of sugar they can still sell here (1 million tons in 1988 in comparison with 5 million tons in 1981); however, it must be understood that it depresses the price on the rest of the sugar they sell. Therefore, it is an illusion to think that this premium (or what economists call a "quota rent") given the current low level of the sugar quota is going to make these countries better off.

For example, in 1988 U.S. quota holders will have sold almost 11 million short tons of sugar on the world market in addition to the 1 million tons of quota sugar sold to the United States. World prices only have to be two cents lower due to the U.S. sugar program to offset all earnings from sales to the United States. And many analysts believe that the world price impact of U.S. policy (i.e., reduction of sugar imports by 4 million tons) has at times been greater than 3 cents.

Solution

There is currently before the Congress a solution to these dilemmas. On November 17, 1987, bipartisan legislation was introduced by members of this Committee, Congressmen Tom Downey and Bill Gradison--H.R. 3646, the Sugar Supply Stabilization Act of 1987. This legislation would gradually reduce the current raw sugar loan rate from 18¢ to 12¢ over the next four years, while setting a floor on imports that rises by 500,000 tons per year.

At today's quota level, sugar imports under quota would be raised to approximately 3 million tons by 1992. Thus, this legislation would return all traditional foreign suppliers, including CBI beneficiaries, to their 1983/84 quota level. In this manner, the goal of the new CBI legislation to return the CBI beneficiary countries to the level of sugar imports before the enactment of the 1983 Caribbean Basin Economic Recovery Act would be accomplished. At the same time, an inevitable challenge of our GATT waiver by non-CBI sugar exporters would be avoided.

On the question of cost, it is estimated that as a result of the decreasing domestic price and concomitant expansion in domestic consumption caused by the Sugar Supply Stabilization Act of 1987, an additional 500,000 tons of sugar under quota could be imported each year for four years at "no cost" to the federal government.

The Sugar Supply Stabilization Act of 1987 would protect efficient domestic sugar producers from natural disasters and subsidized foreign competition, while at the same time increasing imports from efficient producers of foreign sugar. Since 1983/84, foreign suppliers have seen their sugar sales to the United States cut by two-thirds. Currently, they earn only about $400 million on the 1 million tons they are allowed to ship to the United States. If the United States were to cut the domestic loan rate to 12¢ (or a U.S. market price of 15¢), a level well above the current world price, and at the same time triple the volume of imports to 3 million tons, the aggregate earnings on sales to the United States by foreign suppliers would be more than doubled to approximately $810 million. Moreover, earnings on their world market sales would also strengthen, from $2.2 billion this year to $2.6 billion in 1992. The details supporting these figures are contained in the following table:

Sugar Export Revenue of U.S. Quota Holders

	1983/84	1988	1992*
Trade			
	--------million short tons---------		
World Free Market	21.2	21.8	21.5
U.S. Quota Holders			
To U.S.	3.0	1.0	3.0
To World Market	11.0	10.9	10.7
Total	14.0	11.9	13.7
Revenue			
	----------million dollars----------		
U.S. Quota Holders			
U.S. Market	1,220	403	810
World Market	1,386	2,180	2,570
Total	2,606	2,583	3,380
Prices/Raw Sugar			
	-----cents per pound/raw sugar-----		
U.S. Market			
MSP (c.i.f. NY)	21.84	21.67	15.00
f.o.b. Carib.	20.34	20.17	13.50
World--f.o.b. Carib.	6.30	10.00	12.00
Quota Holder's Average	9.31	10.85	12.34

*Projected situation after full implementation of Sugar Supply Stabilization Act of 1987.

Source: Abel, Daft & Earley.

Conclusion

In conclusion, Mr. Chairman, we applaud your Committee's efforts and its recognition that the domestic sugar program is causing irreparable harm to our trading partners. The Sugar Supply Stabilization Act of 1987 is a logical, compatible alternative to Section 10 of the Caribbean Basin Economic Recovery Expansion Act of 1987. The budgetary problems and GATT questions can be resolved by substituting the Sugar Supply Stabilization Act for Section 10 of this legislation.

The Sugar Supply Stabilization Act is good policy. It would reduce the role now played by the federal government in the domestic and foreign sweetener markets. It is far better than a return to outdated agricultural policies such as mandatory production controls. It would be more consistent with our trade and foreign policies, and it would immediately benefit the Caribbean region as well as other foreign suppliers.

Mr. Chairman, thank you for the opportunity to present our views on this important legislation, and we look forward to working with you and your Committee as you continue deliberations on this matter of vital concern.

Chairman **Gibbons**. Thank you.

What do the other panel members think of the Downey-Gradison bill?

Mr. **Ravnholt**. If I may speak for the American Sugar Alliance, we are, of course, unalterably opposed. The Downey-Gradison bill is based on the premise that if we reduce the loan rate and increase imports of sugar into the United States market, that we are going to be able to drive out of production roughly, or almost a third of the U.S. sugar industry, and everybody will be better off, except, of course, the people who are driven out of business, and they don't mention them.

We have regions of this country that are heavily dependent on the sugar industry for their economic prosperity and survival. And the chief beneficiaries of the Downey-Gradison approach would be the large industrial users of sweetener, who not only would get their sugar for $120 a ton less, but who would also get their corn sweetener for a good deal less.

Presumably, there are some excess profits around some place from which that could be done.

I would suggest that if you take a look at the profits of industrial users, and you take a look at the profits of producers of nutritive sweetener in this country, you would be hard put to find that the excess profits are on the producing end of this business.

Chairman **Gibbons**. I'm puzzling that over and trying to figure out if there is any way in the world we can get out of the mess we're in.

This has certainly turned out to be one of the conundrums of all time. We have created a problem from which there doesn't seem to be any way to extricate ourselves. It is hard for me to believe that that is it, but that certainly seems to be the gist of the testimony.

Mr. **Ravnholt**. Perhaps time and market growth will take care of some of it.

There is some improvement, as you know, in the world price of sugar. A couple of years ago, it was averaging 4 cents a pound. It was down to just over 2½ cents a pound at one time.

This year it has increased to an average today of around 10½ cents a pound. In June it was up to 15 cents a pound briefly.

I think there is a possibility that we will see world supply and demand in greater balance in the years immediately ahead than it has been in the recent past.

Chairman **Gibbons**. But it seems to me, and I don't want to interrupt you, that all we do is suck in more corn production?

Mr. **Ravnholt**. In the U.S. high fructose corn sweetener production has captured the soft drink market. There has been no real expansion in that industry in the last couple of years, so that has slowed down; it has leveled off.

And unless there are some new developments in terms of uses for high fructose corn sweetener in the crystalline form, which currently is quite expensive, we do not expect that kind of expansion here.

Now, will there be an expansion elsewhere in the world that will depress world prices? Certainly there would be if the EEC opens up its market to high fructose corn sweetener. They have not done so.

In fact, they forced Spain to get rid of a good share of its HFCS industry in order to gain access to the European Common Market.

We could not guarantee that there will be no developments which will make crystalline corn sweetener cheaper than we can produce sugar in this country. We can only say that we are efficient producers of sugar and that uniquely in this country, or almost uniquely, we have permitted corn sweetener to compete freely with sugar.

And from a public policy point of view, given the fact that we are a very heavy surplus producer of corn, it is hard to decry the development of an industry that consumes some 500 million bushels of corn a year.

Chairman GIBBONS. But it is the taxpayer that is just plowing more and more money into the production of corn. Isn't that what's really producing all of this?

We are like a crazy dog chasing our tail around and around in a circle, is what it looks like to me. I may have a biased view of it, but that is what it looks like.

Mr. RAVNHOLT. Well, I am not sure that Congressman Frenzel would agree with you totally on the problems of producing too much corn in this country.

But we are efficient producers of corn. And it is true that we do have a program which has, in effect, through deficiency payments, subsidized the production of corn.

We do of course also limit the production of corn by the acreage set-aside that are required under that program. And we also export a good deal of corn, of course.

Chairman GIBBONS. But it is also subsidized. That is that $36 billion that I see in the budget. It is all right there in the Commodity Credit Corporation or some place.

If I thought growing more corn was really going to be the solution for America, I would start growing corn myself. But all it does is drain more money from the rest of us taxpayers.

Thirty-six billion dollars, that is a substantial amount of money. Let me ask you, what is going to be the position of you sugar producing people in the GATT round? Are you going to help us tear down the European subsidy system? Or what is going to be your position on that?

Mr. RAVNHOLT. We have taken the position that we will support worldwide free trade in sugar. And we recognize that this is not without some risks.

We are basically world average cost producers. And we believe that it would be very difficult if the high cost producers went out of business, for the average cost of producing sugar in the world to drop below U.S. production costs.

Chairman GIBBONS. Which one of you gentleman wants to go next?

Mr. CRANE. Mr. Chairman, I wanted to ask what Mr. Ravnholt what he thought of Mr. Tipton's proposal to substitute the Sugar Supply Stabilization Act, for the sugar provision in the CBI bill.

Chairman GIBBONS. I got the impression that he wasn't for it. [Laughter]

Mr. CRANE. But I would just say, Mr. Ravnholt, that I voted against the drought bill. And I have dairy farmers in my district, and I have corn growers in my district in Illinois.

And notwithstanding that vote, I got the McHenry County Farm Bureau award for friend of the farmer. And I have a farm in Indiana, and I have good folks down there who cultivate soybeans and corn for me, and it has been a tough go for them through the years.

But they are adamantly opposed to the government being involved in agriculture. And I don't mean that they would sever it at once. I think having created programs like this Government involvement should be phased out.

This is a pervasive view with the Farm Bureau in Illinois.

Mr. RAVNHOLT. As I indicated, we have taken a position in support of getting the government out of agriculture. We feel we can compete with agriculture producers around the world.

We cannot compete with the governments around the world who subsidize and dump the surplus onto the world market and then say we have to compete with that.

Chairman GIBBONS. Bill.

Mr. FRENZEL. I would like to ask Mr. Ravnholt, what is the world price of sugar right now?

Mr. RAVNHOLT. 10½ cents roughly right now.

Mr. FRENZEL. And what is our loan price?

Mr. RAVNHOLT. Our loan price is 18 cents average.

Mr. FRENZEL. And what has our loan price over the last couple of years?

Mr. RAVNHOLT. In 1981 we adopted the current program at 17 cents. And that increased over the four years of that bill to 18 cents in 1985.

In 1985 the program was renewed with an 18 cent loan rate as a constant loan rate for the 5-year term of that bill.

In 1977 we had a 13½ cent program, in 1977 and 1978. And we had no program in—let's say the Department continued one under voluntary authority in 1979. In 1980 and 1981 we had no program.

And we had no program in 1975, 1976 either.

Mr. FRENZEL. So what does that make the domestic sugar price?

Mr. RAVNHOLT. The domestic sugar price, if we're talking about raw sugar, is roughly averaging—landed New York—21¾ cents. The price at the mill is just at or above the loan rate.

Our actual return to the mills in Hawaii is under 17 cents. Although we have a 17½ cent loan rate, we haven't put it under loan, because if we do and forfeit we end up not having any storage space. We also end up losing our customers.

So it depends on where the price of that sugar is measured. Obviously the price of sugar in Minneapolis is not the same as the price of sugar in New York because in the Minneapolis area you have a surplus of sugar. You not only get the sugar that is produced in Minnesota and North Dakota; but we ship Hawaiian sugar refined at C&H in California into the Minneapolis area. And this means that prices there are lower than they are on the East Coast of the United States.

Mr. **Frenzel**. If the world price is a dime, and the loan rate is 18, does that mean Mr. Tipton's customers are paying you eight cents a pound for an extra lick of their ice cream cone?

Mr. **Ravnholt**. I would say that they are paying less today than they were prior to our getting the current program.

In 1980–81 the price of sugar was higher than it is today.

Mr. **Frenzel**. However, if there were no programs, presumably they would be paying a dime?

Mr. **Ravnholt**. I doubt that they would be paying a dime. I don't know what the price would be if there were no program.

Obviously it depends on how many current producers go out of business, and what the supply would be. They might be paying what they were paying in 1974, which was 65 cents a pound.

Mr. **Frenzel**. Mr. Tipton, would you care to comment on that inflammatory point?

Mr. **Tipton**. Yes, sir, I would like to draw some kind of parameters around that, I think one needs to look at the world market prices, which are about 10½ cents. Domestically, the cost of producing high fructose corn sweeteners is somewhere in the 13 to 14 cents a pound in its refined form, not in its raw form that we were just talking about but in its ready to be used form.

And probably with the world market prices being as low as they have been for quite a period of time, and with production across the world continuing to be plentiful, the world market price would be probably average somewhere in that range too, maybe 11, 12 cents, or something of that nature.

I think that legitimately would be in line with what the costs of production would be generally, and there would be an enormous savings to consumers in the United States if we were more competitive on the world market price. And even if the domestic industry were to compete with the high fructose corn sweetener industry in the United States, that would be a much lower price. The high fructose corn sweetening industry in the United States has gotten an enormous share of the market as a result of this sugar program. It's not the corn growers, it's the refiners.

Mr. **Frenzel**. I was going to ask next, and I would like Mr. Ravnholt to comment also, that it would be a small wonder that the corn refiners are a part of this. They are having a nice umbrella held over them as well.

Mr. **Ravnholt**. Well, let's say that we have a considerable number of companies in the corn refining business. This is not a highly monopolized one. I would suggest that it's certainly no more concentrated in ownership than is the large soft drink industry, the biscuit industry, the confectionery industry, or the cereal industry in this country.

Mr. **Frenzel**. We will concede that they are equally scandalous. [Laughter.]

But the problem remains that if this sort of an exercise were not Government driven, the Attorney General would be after you all.

I am in agreement it keeps the prices up and, you know, we invented it and it is ours.

Mr. **Ravnholt**. It is true that Government does limit foreign access to the U.S. sweetener market. But, remember, there is no limit on the number of people who can go into the business of producing sweeteners in the United States.

And while the chairman mentioned that there were farmers in North Dakota who were upset about the fact that they could not grow sugar beets, they are perfectly free to grow sugar beets. The problem, of course, is that there is no market for sugarcane or sugar beets unless there is a processing facility that is available to handle them.

And what happened up in that area, as you know, was that farmers got together, made the investment necessary to build the processing facility. Additional farmers can certainly do that if they think there's sufficient profit in it to do it.

Likewise, there's nothing that stops Cargill or American Maize or others from expanding their corn sweetener production. The supply of raw material is certainly there, even with the drought.

Mr. FRENZEL. One of the things that bug this committee is, of course, that Mr. Tipton and friends immediately come to us because if they start competing in a free trade environment with Canada, their Canadian competitors, have got a lower cost of ingredient. Theoretically, at least, they have sugar available for them for a dime. And if they can buy it from Fidel, it may be cheaper.

When we start to invent a program to draw the walls around a few of our friends, it begins to complicate our whole trading structure in the world. And I don't know what the answer is, but somewhere along the line we have to rationalize the procedure.

I must say I am very grateful that your organization is supporting world free trade in sugar, because I think that is one way that we can get there. Also I am of the opinion that you expressed, that we didn't start the war, and perhaps we were forced into it by our friends in the EEC.

But somehow we've got to get some rationality back into this system. It sure doesn't look like it's there at the moment.

I yield to my chairman.

Chairman GIBBONS. Well, we are going to next to go ships. Thank you all very much.

Excuse me. We've got another sugar panel.

We will have to go vote and be right back.

[Short recess.]

Chairman GIBBONS. Our next panel is composed of representatives of the Dominican Republic, the Philippines Sugar Administration group, and Mauritius and Peru, and a group of 18 non-CBI sugar exporting countries.

Let's see, who goes first. Mr. Vicini.

STATEMENT OF FELIPE J. VICINI, MEMBER, INTERNATIONAL SUGAR POLICY COORDINATING COMMISSION, DOMINICAN REPUBLIC

Mr. VICINI. Yes. Thank you.

Mr. Chairman, members of the committee, I am Felipe Vicini, a member of the International Sugar Policy Coordinating Commission of the Dominican Republic. The Government of the Dominican Republic appreciates the committee's invitation to testify today on

H.R. 3101, the Caribbean Basin Economic Recovery Expansion Act of 1987.

The Dominican Republic has been a strong supporter of the Caribbean Basin initiative from the outset. We believe, as Speaker Jim Wright recently stated, that the Caribbean Basin initiative is "clearly one of the most far-sighted foreign policy initiatives undertaken" by the Reagan Administration. Unfortunately, the program has not achieved all the positive results that were intended in spite of the efforts of the public and private sectors in the United States and the 22 beneficiary countries. There are a number of reasons for this, including changing market conditions and depressed commodity prices, and especially in the case of the Dominican Republic, the loss of foreign exchange earnings from substantially decreased sugar exports to the United States.

However, passage of this legislation, H.R. 3101, if enacted with provisions restoring the sugar quota to fiscal year 1984 levels, will restore jobs and personal income; will remove the largest obstacle to progress, the lack of capital, and will enable my country to earn the badly needed foreign exchange that is essential for economic development and diversification.

Sugar has been and continues to be the keystone of the economy of the Dominican Republic. The sugar industry is the nation's largest employer. Traditionally, one out of every 10 Dominicans has derived his daily livelihood from the sugar industry, which includes more than 8,000 independent cane farmers.

Sugar cane is cultivated mostly in the southeastern coastal plain, in poor soils, which are not irrigated. The only evident feasible alternative use for most of this land is as pasture for cattle grazing.

Over the past 10 years, sugar exports have provided 30 percent of the nation's export earnings. The Dominican Republic is the principal foreign supplier of sugar to the United States, having a 17.6 percent share of the allocated quota.

Before the establishment of the restrictive quota system, the Dominican Republic maintained a fairly stable sugar production, 80 percent of which, or about a million tons, was available for export. Between 1975 and 1981, the yearly shipments to the United States averaged approximately 805,000 tons. For the 12-year period starting in 1970, the average is only slightly lower.

Since 1983, however, three sugar mills have closed down completely, and the remaining 13 are operating on average at only 75 percent of normal levels.

Since early 1981, depressed price conditions have generally prevailed in the free sugar market as a result of the enormous volume of subsidized surpluses dumped on the world market by the EEC. In order to insulate U.S. sugar producers from these conditions, the United States has taken progressively stricter measures to restrict sugar imports.

In May 1982, the President established an allocated import quota system. While the Dominican Republic has been able to obtain higher prices on its sales in the United States as a result of the quota and the CBI duty suspension, this has been far more than offset by the decrease in volume. In fact, the drop in the volume of our sugar exports to all destinations since 1983 is 30 percent greater than the cut in the U.S. quota.

Our sugar exports to the United States have fallen so far that, at this present moment, they qualify for duty exemption under the "competitive need" criteria of the GSP. Our current quota for calendar year 1988 is 176,710 short tons, which is almost 700,000 tons less than the amount permitted duty free entry under CBI. Thus, instead of being permitted to earn up to $344 million per year on sugar exports to the United States, the Dominican Republic currently earns about $70 million per year. This means that, since January 1, 1984, the effective date of the CBI, the Dominican Republic has failed to recognize over $1.1 billion in potential sales to the United States due to the cuts in the sugar quota program.

This is a huge sum for a developing country, such as the Dominican Republic, equal to its total yearly foreign exchange receipts, and over 20 percent of GNP.

While we are grateful for U.S. foreign assistance, the sums involved fall far short of the loss of income from sugar. Furthermore, while foreign aid may alleviate certain problems resulting from a sudden loss of income, it does very little to create substitute sources of production and employment.

Because of the massive cuts in the U.S. sugar quota, the economy of the Dominican Republic is in critical condition. Foreign debt service is draining a large portion of the limited foreign exchange earnings, and the country must again reschedule its bilateral commercial debt or run the risk of default.

The Dominican Republic has used its best efforts to take advantage of the benefits of the CBI. As a counterpart to the CBI, the Dominican Government implemented its own program for development in four priority areas: industrial free zones, agroindustry, tourism and mining. In addition, the Dominican Republic rescheduled its debt in April 1985, and undertook severe adjustment measures in conjunction with the IMF, including devaluing the peso. During this period of belt-tightening, the Dominican Republic has made progress in attracting new investment and expanding existing business operations. Nevertheless, it has been an uphill battle because of the great loss in sugar production and export earnings.

It has long been the policy of the Dominican Government, even before the CBI was conceived, to encourage the development of new industries in order to diversify our external trade sector. A number of joint ventures have been initiated to use sugarcane land or pasture land for agroindustrial projects, involving such articles as citrus, pineapples, and African palms.

From January 1984 through September 1985, a total of 34 new agroindustrial projects were started up with investments of $63 million that have created over 6,000 new jobs. The duty exemption under the CBI has added to the attractiveness of such projects. However, the area planted in new crops is only a fraction of the lands taken out of sugar cane production.

Other new business ventures have been undertaken in tourism, as well as in industrial parks and industrial free zones in sugar cane regions. The tourism sector is becoming particularly important in the Dominican Republic and the entire Caribbean for income generation and the creation of jobs. From 90,000 visitors in 1970, the Dominican tourism industry has expanded to about 760,000 visitors, with the result that the gross income from tourism is now estimated at three times that from sugar exports. In 1986, free trade zones employed 40,000 Dominicans. In 1986 and 1987, over 23 million was invested in 36 new enterprises established in the industrial free zones. This has generated 12,200 new jobs.

Although the Dominican Republic has made noteworthy progress in diversifying its economy, it is important to recognize that diversification does not happen overnight. It is an evolutionary process in which government must balance the loss or reduction in foreign exchange earnings and jobs in the short run against long-term advantages.

For example, the loss of jobs in the sugar industry has outweighed the gain of jobs in new industries. Moreover, in many cases, the new projects do not provide as much benefit to the economy as the activity they have replaced, because they do not employ any of the nation's resources except for cheap labor.

Fundamentally, what the country needs is to preserve its traditional industries while expanding into new fields. This is the only way we can generate the savings required to capitalize the new industries.

Because of its relative importance in the economy, the Dominican sugar industry must still be relied upon as a primary source of funds for capitalizing new industries. In order for it to fulfill this role, it must regain its profitability, which means essentially recovering its traditional participation in the U.S. market. While H.R. 3101 would not guarantee Dominican sugar exports access to the U.S. market at the traditional level of 805,000 short tons, it would restore the sugar quota to the level in the fiscal year 1984 quota year, namely 535,392 short tons. This would be a very significant achievement.

While the Dominican Republic regards the restoration of the sugar quota as the most important section of the bill, there are other provisions which we support that are more fully addressed in the appendix to my written statement.

In summary, the Dominican Republic strongly supports the improvements to the CBI contained in H.R. 3101. We would like to express our recognition of the understanding that Chairmen Gibbons and Pickle and other Members of Congress have shown for the problems of the Dominican Republic and other Caribbean countries, and our gratitude for their initiative in proposing effective remedies to these problems. We are confident that this legislation, if enacted with its remedial provisions, especially the restoration of the sugar quota to fiscal year 1984 levels, will lead to economic prosperity and increased political stability throughout the region. If it does so, the promise of the CBI will have been realized.

Thank you.

[The statement of Mr. Vicini follows:]

STATEMENT OF FELIPE J. VICINI, DOMINICAN REPUBLIC

Mr. Chairman and Members of the Committee:

I am Felipe J. Vicini, a member of the International Sugar Policy Coordinating Commission of the Dominican Republic.[1] The Government of the Dominican Republic appreciates the Committee's invitation to testify today on H.R. 3101, the Caribbean Basin Economic Recovery Expansion Act of 1987. .

As you know from earlier statements and appearances before the Committee, the Dominican Republic has been a strong supporter of the Caribbean Basin Initiative (CBI) from the beginning. We believe, as House Speaker Jim Wright recently stated, that the Caribbean Basin Initiative is "clearly one of the most far-sighted foreign policy initiatives undertaken" by the Reagan Administration.[2] Unfortunately, the program has not achieved all the positive results that were intended, that is, "to promote economic revitalization and facilitate expansion of economic opportunity in the Caribbean Basin", in spite of the efforts of the public and private sectors in the United States and the twenty-two beneficiary countries. There are a number of reasons for this, including changing market conditions and depressed commodity prices, and especially in the case of the Dominican Republic, the loss of foreign exchange earnings from substantially-decreased sugar exports to the United States.

However, passage of this legislation, H.R. 3101, if enacted with the provisions restoring the sugar quota to FY 1984 levels, will restore jobs and personal income; will remove the largest obstacle to progress, lack of capital; and will enable my country to earn the badly-needed foreign exchange that is essential for economic development and diversification.

Importance of Sugar to the Economy of the Dominican Republic

Sugar has been and continues to be the keystone of the economy of the Dominican Republic. It is far more suitable for the Caribbean than any other cash crop, being uniquely adapted to the climate and resistant to local plant diseases.

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[1] The International Sugar Policy Coordinating Commission of the Dominican Republic is a quasi-governmental agency composed of both public and private sector members. The Secretary of State for Foreign Relations is Chairman of the Commission. Felipe J. Vicini is President of a Dominican sugar company and is a private sector member of the Commission.

[2] November 30, 1987, speech to the 11th Miami Conference on the Caribbean.

The sugar industry is the nation's largest employer. Traditionally, one out of every ten Dominicans has derived his daily livelihood from the sugar industry, which includes more than 8,000 independent cane farmers. Sugar cane is cultivated mostly in the Southeastern coastal plain, in poor soils, which are not irrigated. The only evident feasible alternative use for most of this land is as pasture for cattle grazing. However, cattle production would make a much lower contribution to the economy in terms of income and employment.

Over the past ten years sugar exports have provided 30 percent of the nation's export earnings, which are necessary to finance the many imported products required and which cannot be produced in the Dominican Republic. The manufactured items we import are largely of U.S. origin. In addition, we must import virtually all our energy requirements at world market prices.

The Dominican Republic is the principal foreign supplier of sugar to the United States, having a 17.6 percent share of the allocated quota. Before the establishment of the restrictive quota system, the Dominican Republic maintained a fairly stable sugar production, 80 percent of which, or about 1 million tons, was available for export. Between 1975 and 1981 yearly shipments to the United States averaged approximately 805,000 tons. Since 1983, however, three sugar mills have closed down completely and the remaining thirteen are operating on average at only 75 percent of normal levels.

Since early 1981, depressed price conditions have generally prevailed in the free sugar market as a result of the enormous volume of subsidized surpluses "dumped" on the world market by the EEC. In order to insulate U.S. sugar producers from these conditions, the United States has taken progressively stricter measures to restrict sugar imports. In May 1982, the President established an allocated import quota system pursuant to his authority under Headnote 2, Part 10A, TSUS. While the Dominican Republic has been able to obtain higher prices on its sales to the United States as a result of the quota and the CBI duty suspension, this has been far more than offset by the decrease in volume. In fact, the drop in the volume of our sugar exports since 1983 is 30 percent greater than the cut in the U.S. quota.

Our current quota, for calendar year 1988, is 176,710 short tons which is almost 700,000 tons less than the amount permitted duty-free entry under the CBI. Thus, instead of being permitted to earn up to $344 million per year on sugar exports to the United States, the Dominican Republic currently earns about $70 million per year. This means that since January 1, 1984, the effective date of the CBI, the Dominican Republic has failed to realize over $1.1 billion in potential sales to the United States due to the drastic cuts in the sugar quota program. This a huge sum for a developing country such as the Dominican Republic, equivalent to its total yearly foreign exchange receipts, and over 20 percent of GNP. While we are grateful for U.S. foreign assistance (in the form of U.S. AID Economic Support Funds and USDA commodity donations under section

416 of the Agriculture Act of 1949), the sums involved fall far short of the loss of income from sugar. Furthermore, while foreign aid may alleviate certain problems resulting from a sudden loss of income, it does very little to create substitute sources of production and employment.

The reductions in the sugar quota, and accompanying loss in export earnings are set out in chart form below:

Earnings on Sugar Exports to the U.S.

Quota Period	D.R. Sugar Quota (short tons)	Export Earnings (in millions)3/
Oct. 1, 1982 - Sep. 25, 1983	492,800	$197
Sep. 26, 1983 - Sep. 28, 1984	535,392	$214
Oct. 1, 1984 - Nov. 30, 1985	447,040	$179
Dec. 1, 1985 - Dec. 31, 1986	302,016	$121
Jan. 1, 1987 - Dec. 31, 1987	160,160	$ 64
Jan. 1, 1988 - Dec. 31, 1988	176,710	$ 70
CBI Maximum	860,000	$344

Because of the massive cuts in its U.S. sugar quota, the economy of the Dominican Republic is in a critical condition: foreign debt service is draining a large portion of the limited foreign exchange earnings, and the country must again reschedule its bilateral and commercial debt, or run the risk of default.

The Dominican Republic's Efforts in Support of CBI

The Dominican Republic has used its best efforts to take advantage of the benefits of the CBI. As a counterpart to the CBI, the Dominican Government implemented its own programs for development in four priority areas: industrial free zones, agroindustry, tourism and mining. In addition, the Dominican Republic rescheduled its debt in April, 1985, and undertook severe

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3/ Based on U.S. price of 20 cents/pound.

adjustment measures in conjunction with the International Monetary Fund (IMF), including devaluing the peso. During this period of belt-tightening, the Dominican Republic has made progress in attracting new investment and expanding existing business operations.[4/] Nevertheless, it has been an uphill battle because of the great loss in sugar production and export earnings.

It has long been the policy of the Dominican Government, even before the CBI was conceived, to encourage the development of new industries in order to diversify our external trade sector. A number of joint ventures have been initiated to use sugar cane land or pasture land for agroindustrial projects involving such articles as citrus, pineapples, and African palms. From January 1984 through September 1985, a total of 34 new agroindustrial projects were started up with investments of $63 million that have created over 6,000 new jobs. The duty exemption under the CBI has added to the attractiveness of such projects. However, the area planted in new crops is only a fraction of the lands taken out of sugar cane production.

Other new business ventures have been undertaken in tourism, as well as in industrial parks and industrial free zones in sugar cane regions. The tourism sector is becoming particularly important in the Dominican Republic and the entire Caribbean for income generation and the creation of jobs. From 90,000 visitors in 1970, the Dominican tourism industry has expanded to about 760,000 visitors, with the result that gross income from tourism is now estimated at three times that from sugar exports. In 1986 free trade zones employed 40,000 Dominicans. In 1986 and 1987 over $23 million was invested in 36 new enterprises established in the industrial free zones. This has generated 12,198 new jobs.

Although the Dominican Republic has made noteworthy progress in diversifying its economy, it is important to recognize that diversification does not happen overnight. It is an evolutionary process in which the Government must balance the loss or reduction in foreign exchange earnings and jobs in the short run against long-term advantages. For example, the loss of jobs in the sugar industry has outweighed the gain of jobs in new industries. Moreover, in many cases the new projects do not provide as much benefit to the economy as the activity they have replaced, because they do not employ any of the nation's resources except for cheap labor.

[4/] See Subcommittee on Oversight of the House Committee on Ways and Means, Report on the Committee Delegation Mission to the Caribbean Basin and Recommendations to Improve the Effectiveness of the Caribbean Basin Initiative, Ways and Means Committee Print 100-9, 100th Cong., 1st Sess., pages 23-25 (1987).

Fundamentally, what the country needs is to preserve its traditional industries while expanding into new fields. This is the only way we can generate the savings required to capitalize the new industries.[5]

Because of its relative importance in the economy, the Dominican sugar industry must still be relied upon as a primary source of funds for capitalizing new industries. In order for it to fulfill this role, it must regain its profitability, which means, essentially, recovering its traditional participation in the U.S. market. (Using sugar cane to produce ethanol is not a viable solution to the problem). While H.R. 3101 would not guarantee Dominican sugar exports access to the U.S. market at the traditional level of 805,000 short tons, it would restore the sugar quota to the level in the FY 1984 quota year, namely 535,392 short tons. This would be a very significant achievement for the Dominican Republic.

While the Dominican Republic regards the restoration of the sugar quota as the most important section of the bill, there are other provisions which we support that are more fully addressed in the Appendix to my written statement.

Conclusion

In summary, the Dominican Republic strongly supports the improvements to the CBI contained in H.R. 3101. We would like to express our recognition of the understanding that Chairmen Gibbons and Pickle and other Members of Congress have shown for the problems of the Dominican Republic and other Caribbean countries and our gratitude for their initiative in proposing effective remedies to these problems. We are confident that this legislation, if enacted with its remedial provisions, especially the restoration of the sugar quota to FY 1984 levels, will lead to economic prosperity and increased political stability throughout the region. If it does so, the promise of the CBI will have been realized.

5/ The Dominican Republic has not received any additional loans from commercial banks since 1983. The only important loans that have been received at all have been from the IMF for debt service, and from the Inter-American Development Bank and from foreign democratic governments for infrastructure.

APPENDIX

Other Salutary Effects of H.R. 3101 for the Dominican Republic

A. Expansion of Duty-Free Access

The provisions expanding duty-free access for certain products would be very beneficial with respect to stimulating entrepreneurial activity in diverse fields, particularly those that are labor intensive.

For example, under current law, "import sensitive" articles such as textile and apparel goods, footwear, handbags, work gloves, leather flat goods and apparel, certain watches and parts, petroleum and tuna are exempted from CBI duty-free treatment (Section 213(b) of the Caribbean Basin Economic Recovery Act, P.L. 98-67, August 5, 1983). Sections 4 and 7(a) of the bill would modify these restrictions by providing duty-free entry for articles not produced or in short supply in the United States, and for articles manufactured, assembled or processed from 100 percent U.S.-origin materials, components, and other products; and would establish a "tariff-rate quota" allowing a specific quantity of goods that are currently dutiable under CBI to enter duty free.

One of the principal beneficiaries of any such change in current law would be the Dominican textile industry, which, while the largest Caribbean supplier, accounts for a very small share of total U.S. textile and apparel imports, only 1.23 percent in 1984. Not only would Dominican assemblers of U.S.-origin components, and U.S. suppliers of cut-to-be-sewn fabric, benefit from the proposed duty exemption on any "value-added" in the Dominican Republic, Dominican apparel manufacturers that use U.S.-origin fabrics, instead of pre-cut components, would also benefit by not having to pay duty on the value of the fabric or on the "value-added" in the Dominican Republic, and could export such apparel to the United States free of any quota.

Of course, all Dominican manufacturers of any of the other products ineligible for duty-free treatment under Section 213(b) would be potential beneficiaries of the expanded duty-free treatment under Sections 4 and 7(a).

B. Other Benefits of H.R. 3101

A very important provision is the extension of the CBI for twelve years, through September 30, 2007 (Section 6). Such extension would help assure potential investors of the long-term benefits of investment in the region. The extension would be particularly important in the Dominican Republic in the area of agricultural development, due to the long start-up time for agribusiness ventures.

Other important benefits of the legislation are the provisions increasing the duty-free allowance for U.S. citizens returning from CBI countries (Section 5) and the provision establishing separate injury determinations for CBI countries in antidumping and countervailing duty cases (Section 8).

The increase in the duty-free allowance would help the tourist industry in the Dominican Republic by providing an incentive to tourists to purchase more local goods; furthermore, money derived from tourism is rapidly disseminated throughout the economy.

The establishment of a separate injury determination for imports from CBI countries, and the "cumulation" of any injury, as provided in Section 8, would help prevent import sanctions on CBI-origin goods where worldwide imports of dumped or subsidized goods may cause injury to a domestic U.S. industry, but where the CBI-origin goods have little or no adverse effects by themselves. A separate injury determination would obviate such unfair result - the imposition of countervailing or antidumping duties on CBI-origin goods in such cases.

Chairman GIBBONS. Thank you, sir.
Mr. Harding.

STATEMENT OF RALPH R. HARDING, ADVISOR AND CONSULTANT, GOVERNMENT AFFAIRS, PHILIPPINE SUGAR ADMINISTRATION

Mr. HARDING. Mr. Chairman, I want to thank you and members of the subcommittee to testify here today in behalf of the Philippine sugar industry.

And I might make unanimous consent that my full statement be included, and I will summarize in the interest of time.

Chairman GIBBONS. All right, sir, it will so be.

Mr. HARDING. When we talk about sugar, we have to talk about the Philippines because, as you know, the Philippines is the oldest supplier of sugar from abroad. In 1796, the first boatload of sugar came into the Boston harbor from the Philippines, and from that time the trade rapidly expanded, and the Payne-Aldrich Act of 1909 provided the Philippines with duty free entry for 300,000 tons of sugar annually. The Underwood-Simmons Act of 1913 removed the limit, and by 1933 Philippine sugar imports had climbed to 1,250,000 tons, which then represented more than 60 percent of the total U.S. imports.

In 1934, the duty free entry of Philippine sugar was dramatically reduced to 980,000 tons with the passage of the Philippine Independence Act. Later the Jones-Costigan Act of 1934 and the U.S. Sugar Act of 1937 provided larger quotas, but Philippine exports into the U.S. market remained within their duty free limits of 980,000 tons.

Up until 1960, we really only bought sugar from two countries, the Philippines and Cuba. When Cuba went Communist in 1960, their quota was reallocated among over 30 other different countries. Well, Mr. Chairman, in 1982, when they established a new sugar quota allocation, the Philippines really was discriminated against. Historically, they had supplied 27 percent of all sugar imports into the United States. But under the formula used by the Administration in 1982, they were given a quota of only 13.5 percent.

And like my friend from the Dominican Republic, who has just spoken here, the Philippines depended upon sugar export earnings. They had over five million people involved in the sugar industry in the Philippines. As a result of what happened to the quota in 1982 and the depressed world prices, there are 250,000 unemployed cane workers and millworkers in the Philippines today. And it is in those areas that the Communist insurgency is making its greatest inroads.

Mr. Chairman, we talk about what we are going to do, and waiting and so forth. But in countries like the Philippines and the Dominican Republic, we can't wait. I mean these people are desperate. And the Congress recognizes this. And last December we passed the Inouye resolution in the continuing resolution that gave 400,000 tons of additional quota to the Philippines and to the CBI countries without hurting any of the other suppliers of sugar to the United States, provided for it to be funded with generic certificates. And then the Administration refused to implement it.

And I can't tell you how much damage that did to the U.S. image in the Philippines because they announced that they had another 110,000 tons of quota, it was carried in all of the papers and when the President signed it. And then when we refused to implement it, as one prominent Filipino told me, how can we trust the U.S.? They give us something with one hand and take it away with another hand.

I want to say we are here today not to oppose this sugar section for the CBI countries but to ask that we be included, Mr. Chairman.

And with that, I will conclude my testimony. I want to compliment you and Congressman Crane and Mr. Frenzel and the other members of the subcommittee who really are interested in helping our neighbors to the south. And they need help. And the same is true in the Philippines. We've got drastic problems there. And we want to thank you in advance for your sympathetic consideration.

[The statement of Mr. Harding follows:]

STATEMENT OF RALPH R. HARDING, PHILIPPINE SUGAR ADMINISTRATION

Mr. Chairman:

I thank you and the members of your Subcommittee for the opportunity to appear here today to make a few observations about H.R. 3101, the Caribbean Basin Economic Recovery Expansion Act of 1987, and especially on the sugar section of this program.

I last appeared before the House Ways and Means Committee on June 9, 1983 when the Committee was considering H.R. 2769, the original Caribbean Basin Initiative legislation. I stated at that time, "I want to make clear at the outset that we are not opposing the goals and objectives of promoting economic development and greater stability in the Caribbean region." I concluded my testimony by stating, "We propose that the sugar section of H.R. 2769 be amended to provide that the Philippines will be treated equally with the Dominican Republic as far as sugar is concerned. This amendment is in recognition of the role of the Philippines as our oldest and most dependable supplier of sugar, as well as our proven ally and trusted friend. Without our amendment, the Philippines will be severely penalized by the CBI legislation which will give the Dominican Republic an enormous, unfair advantage. I am sure it is not the intention of our Government -- either the Administration or The Congress -- to help the sugar industry of the Caribbean at the expense of the sugar industry of the Philippines. The adoption of our proposed amendment would merely allow the implementation of the CBI without disastrous effects for the Philippine sugar industry."

Mr. Chairman, I want to make it clear again today that we are not opposing H.R. 3101. However, it is absolutely necessary that the Philippines be treated equally with the Caribbean Basin countries in regard to sugar quotas.

Mr. Chairman, I believe it is time for the United States Government, including The Congress, to face the fact that our sugar import program is not a trade program, but rather an aid program and that all sugar imports should come from friendly, developing nations who have been historical producers and exporters of sugar and who are in need of economic assistance.

Our sugar quota allocation program that was instituted in 1982 discriminated unfairly against the Philippines and hence, every allocation since 1982 has been unfair to the Philippine sugar industry. I have pointed out many times that the Philippines is our oldest foreign supplier of sugar. It was in 1796, just 20 years after the Declaration of Independence that the first load of Philippine sugar sailed into Boston Harbor. The trade expanded rapidly and the Payne-Aldrich Act of 1909 provided the Philippines with duty-free entry for 300,000 tons of sugar annually. The Underwood-Simmons Act of 1913 removed the limit and by 1933 Philippine sugar imports had climbed to 1,[illegible],000 tons which represented more than 60% of the total U.S. imports. In 1934, the duty-free entry of Philippine sugar was drastically reduced to 980,000 tons with the passage of the Philippine Independence Act. Later, the Jones-Costigan Act of 1934 and the U.S. Sugar Act of 1937 provided larger quotas, but Philippine exports into the U.S. market remained within their duty-free limit of 980,000 tons.

Prior to 1960, U.S. sugar imports were supplied almost exclusively by the Philippines and Cuba. During the 30 years from 1930-1959, the Philippines supplied 28.13% and Cuba 69.17% of U.S. sugar imports. The exclusion of Cuba from the U.S. market in 1960 led to the Cuban sugar quota being redistributed among more than 30 other foreign countries. Still, during the 15 years from 1960-1975, 27.6% of U.S. sugar imports came from the Philippines.

The Philippine quota was earned not only because of their historical record as a dependable supplier of 24.97% of all U.S. imports from 1930-1981 (excluding the war and reconstruction years), but also because of their loyalty to the U.S. in World War II, Korea and Vietnam. The U.S. has not had a more dependable ally than the Philippines. Unfortunately, the 1982 sugar quotas established an allocation of 13.5% of U.S. imports for the Philippines. This was a grave injustice to a loyal ally who had supplied 25% of U.S. imports over a 52 year period.

For many years, sugar was the major agricultural export for the Philippines. Their sugar industry had been built largely to supply the U.S. market. It is interesting to note that the Philippines was not only a loyal ally of the United States in the Korean and Vietnam conflicts, but was actually part of the U.S. from 1898 to 1946.

In the early 1970s, the EEC member countries provided to purchase nearly 1.5 million tons of sugar annually at the heavily subsidized EEC price from former colonies. Unfortunately, the United States showed no such preference to the Philippines in 1982 when our current quota system was established. We completely ignored the fact that the Philippines had been a territory of the United States for nearly 50 years, that the Philippines had been supplied 25% of our sugar for 52 years and that the Philippines was heavily dependent on sugar exports to the U.S.

For nearly six years, I have been working along with representatives of the Philippine sugar industry and the Philippine Government to obtain an increase in the Philippine sugar quota and for six years I have seen it cut dramatically as the following chart illustrates.

Philippine Sugar Quotas

1982-83	445,500	short tons raw value
1983-84	410,700	short tons raw value
1984-85	344,500	short tons raw value
1985-86	231,660	short tons raw value
1987	145,780	short tons raw value
1988	110,600	short tons raw value

This reduction in the Philippine sugar quota to the U.S. has played into the hands of the communist insurgency in the Philippines. The sugar producing areas have been severely depressed economically since the early 1960s and increasing numbers of sugar cane cutters and mill workers have been unemployed. It is in these sugar producing areas that the communist insurgency has made some of its greatest gains.

The Philippine sugar industry cannot understand why the quota they were given in 1982 was only one half of their historical share. Further, they cannot understand a quota system that allocates quotas, and the resulting subsidies, to fully developed nations -- in some cases nations who cannot produce enough sugar to meet their own domestic needs.

Mr. Chairman, I believe it is time for the United States to recognize and declare that our sugar program is a foreign aid program and in the future all sugar will be imported from friendly, developing countries who are loyal U.S. allies, have a history of exporting sugar to the United States and desperately need the U.S. sugar quota to subsidize their local economy. In fact, the need for a U.S. quota could well be determined on a per capita income basis. This policy would be realistic and assist our friends who need help. This is true with the Philippines as well as the CBI countries.

Mr. Chairman, as you well know, The Congress in December of last year unanimously passed a provision in the Continuing Resolution which would increase U.S. sugar purchases by 400,000 tons to assist the CBI countries and the Philippines. Of this total amount, the Philippines was to provide 110,000 tons. The sugar was to be purchased at the prevailing U.S. price, refined by U.S. refiners and re-exported back into the world market. The difference between the world price and U.S. price was to be made up by Generic Commodities Certificates. This provision which was desperately needed by the Philippines and CBI countries had strong support from our own domestic sugar industry and The Congress, including the leadership. It is unfortunate that the Administration refused to put the program into effect.

It created a real problem in the Philippines. When this Inouye Re-Export PIK Program, giving the Philippines an additional 110,000 tons of quota was passed in December and signed into law by the President, there was widespread publicity and great expectations in the Philippines. It provided the impetus to get the banks to provide loans and create jobs in the sugar industry. However, a few months later, the USDA refused to implement the program and the reaction in the Philippines was predictable.

They could not understand how a law passed by Congress and signed by the President could be ignored by the Administration. They accused the U.S. of being unsympathetic to the plight of the sugar producers. So often I heard, "The U.S. gives us sugar quota with one hand and immediately takes it away with the other." There has been great disappointment in the Philippines over the way the United States has treated the Philippine sugar industry.

Therefore, we need a dramatic change that will benefit the Philippines, the CBI countries and other worthy and needy friends. While I favor such a change in policy, I must conclude my testimony by stating we are not opposed to H.R. 3101, including its sugar provision, as long as the Philippines is included and treated equally with the CBI countries.

Chairman GIBBONS. Well, you certainly make a very fine case for the problem of the Philippines.

When I think of the money we have thrown at the fight against communism, and then think of what we do to shoot ourselves in the foot every time we lose, I want to cry.

Mr. Pierson.

STATEMENT OF W. DeVIER PIERSON, COUNSEL TO THE MAURITIUS SUGAR SYNDICATE

Mr. PIERSON. Mr. Chairman, my name is W. DeVier Pierson, and I am appearing in my capacity as legal counsel in the United States to the Mauritius Sugar Syndicate, the international marketing entity of the private sugar industry of Mauritius, and in a more indirect way I appear on behalf of other non-CBI exporting nations who share many of the same interests and problems as my client in Mauritius.

I have submitted a prepared statement and I ask that it be included in the record.

Chairman GIBBONS. It will so be.

Mr. PIERSON. And, Mr. Chairman, with your permission, I would like to use my time to address some of the comments that were made this morning by you and other members of the committee and some of the witnesses with respect to this exquisite dilemma that you face in reconciling both domestic against foreign interests and various geographic interests throughout the world.

Chairman GIBBONS. We appreciate that.

Mr. PIERSON. Mr. Chairman, I am from Oklahoma, and we had a very colorful public servant, Senator Kerr, who said one time "I'm agin any combine I ain't in." And I am afraid that that is our problem with Section 10 of the pending legislation. It is a combine that the non-CBI nations simply aren't a part of. It does reflect the very difficult problem that you face in dealing with the legitimate needs of a region close to the United States in attempting to use sugar quotas as one tool in dealing with those problems.

There isn't any question, as Mr. Herrera and Mr. Vicini have just indicated, that the CBI nations have been hurt and hurt badly by the decline in sugar quotas.

We all recognize that the limits of those quotas have been driven by the domestic price support program. The problems that the others of us face is that the same is true, and true in spades, with respect to the non-CBI nations. There are 39 countries exporting sugar to the United States at the present time. Twenty-seven of those countries are not CBI beneficiaries. They are, by and large, developing nations in Africa, in Asia, in South America, as to whom this country also has legitimate concerns and a desire for friendly relations and a desire to assist them economically and politically.

Mr. Chairman, 18 of those nations joined through their Ambassadors in sending you a letter this past December, indicating their concerns, and I would ask that that letter be made a part of the record.

Chairman GIBBONS. It will be so included in the record without objection.

[The letter is at p. 362.]

Mr. **Pierson**. Thank you so much.

Let me use my client, Mauritius, as a case in point. Sixty-three percent of the export revenues of Mauritius are from sugar. It is the most sugar-dependent country in the world that participates in the U.S. quota program. Before the quotas recommenced in the 1980s, Mauritius was shipping approximately 100,000 tons of sugar to the United States. In 1988, even with the modest increase in quotas, that is down to about 12,000 tons, almost 90 percent of those export earnings have been lost.

So the challenge that you face, Mr. Chairman, is how do you help the CBI nations with the various economic and political tools that are available without inadvertently discriminating against or hurting those other countries.

Now, Mr. Harding has just made a powerful statement with respect to the importance to our country of the Philippines. And none of us as citizens can doubt for a moment the importance of the Caribbean Basin, and we have all gone through the agony of making political decisions with respect to policies in Central America that will affect the stability of that region.

But our commitments and our interests don't end there. Mauritius, for example, is a nation in the Indian Ocean, with whom we have friendly ties, committed to the democratic process, to free and open elections. It is located in the shipping lanes serving the Persian Gulf, the Suez Canal and the Middle East. As you know, the Persian Gulf, where open warfare was suspended only last month, is being policed by the U.S. Navy. And our ships in that area, indeed our entire fleet in the Indian Ocean, is serviced and supplied at the U.S. Naval Base on the Island of Diego Garcia, over which Mauritius has asserted a claim of sovereignty.

In that respect, Mauritius is the only country in this region whose territory is utilized as a permanent base for U.S. military forces. I am sure other non-CBI countries could tell you of the strategic importance of their country in one way or another. So go around the world and it is very difficult to find an area that ought to be excluded in the application of an economic quota program like the sugar program. And that is the difficulty that you face with Section 10 of the pending legislation.

Now, the GATT problem was addressed by Ambassador Yeutter and others. It is indeed a procrustian bed for the sugar quota program because, as was observed this morning, the quotas for the CBI nations would be in excess of 1.1 million tons at the 1983-84 level, as provided in Section 10. The entire 1988 quota is less than that. It is just over a million tons.

So you either exclude others or discriminate against others by applying the overall quota in less than a non-discriminatory fashion.

Now, as you asked, Mr. Chairman, how in the world do we get out of this problem? Well, there is one way that we could get out of the GATT problem right now, and that is to apply Section 10 to all sugar exporting nations. But I'll confess to you that the effect of that would be to increase the overall quota to approximately three million tons. And I don't need a representative of the Department of Agriculture here to tell me the problems that that involves.

There is another approach, and that is the approach of H.R. 3646, which provides a gradual increase in those quotas; that is, the Downey-Gradison approach, sponsored by Senator Bradley in the Senate. Mauritius would support that, and I believe most of the other non-CBI nations would support that.

Finally, Mauritius would support world free trade in sugar. And we hope that the efforts of our negotiators the Uruguay Round will be successful in that area because somehow, some way, we must avoid the draconian step that you referred to this morning, Mr. Chairman, and find a way to deal with the problems of all sugar suppliers to the United States, not just including my client, but on a non-discriminatory basis for all.

Thank you for your time, sir.

[The statement of Mr. Pierson follows:]

UNITED STATES CONGRESS
HOUSE OF REPRESENTATIVES
WAYS AND MEANS COMMITTEE, SUBCOMMITTEE ON TRADE
SEPTEMBER 15, 1988

Testimony of W. DeVier Pierson on Behalf of the Mauritius Sugar Syndicate Regarding H.R. 3101, the Caribbean Basin Economic Recovery Act

My name is W. DeVier Pierson of the law firm of Pierson Semmes and Finley. I want to thank the Subcommittee for allowing me to appear before you today to present the views of the sugar industry of the country of Mauritius regarding H.R. 3101, the Caribbean Basin Economic Recovery Expansion Act. I am appearing in my capacity as legal counsel in the United States to the Mauritius Sugar Syndicate, the international marketing entity of the private sugar industry of Mauritius. My testimony will be limited to those provisions of Section 10 of H.R. 3101 that would restore the U.S. sugar import quota allocations assigned to the CBI beneficiary countries to the levels that existed during the 1983-84 quota year.

In considering H.R. 3101, the Committee should note that a total of 39 countries export sugar to the United States under the sugar import quota program. Only 12 of these countries - one-third of the total - are CBI beneficiaries. The remaining 27 countries consist for the most part of developing nations in Africa, Asia, and South America. Many of these non-CBI countries are also heavily dependent upon sugar exports for their economic well being.

Although the sugar industry of Mauritius is my client, I am in a sense representing the interests of all 27 of the non-CBI nations that participate in the U.S. sugar quota program. Although each of these nations has its own individual story to tell, they all share certain common concerns and problems regarding the U.S. sugar program. Paramount among these concerns is the hope of Mauritius and the other non-CBI quota countries that the Subcommittee will recognize their profound dependence upon continued access to the U.S. sugar market. These concerns were presented to the Subcommittee in a December 1, 1987 letter to Chairman Gibbons signed by the ambassadors of 18 non-CBI sugar export countries. I ask that this letter be included in the record of these hearings.

Now let me say a few words about Mauritius. Mauritius is an island nation located in the Indian Ocean off the east coast of Africa. It is a country dedicated to the fundamental principles of democracy and freedom. Since its independence from Great Britain in 1968, Mauritius has maintained a parliamentry democracy characterized by free and open elections, and has been a consistently staunch friend of the United States.

As is also true of the CBI countries, Mauritius is important to the foreign policy and strategic interests of the United States because it is located in the Indian Ocean shipping lanes serving the Persian Gulf, the Suez Canel, and the Middle East. As you know, the Persian Gulf, where open warfare was suspended only last month, is being policed by the U.S. Navy. The U.S. Navy ships assigned to the Persian Gulf, as well as the entire U.S. Fleet in the Indian Ocean, are serviced and supplied at the U.S. Navy Base on the island of Diego Garica over which Mauritius has asserted a claim of sovereignty. Consequently, Mauritius is the only country in this region whose territory is utilized as a permanent base for U.S. military forces.

Mauritius is also one of the most sugar-dependent countries in the world. Due to climatic conditions, sugar is one of very few crops that can be cultivated in Mauritius. As a result, over 90 percent of all arable land is devoted to sugar cane production. Despite its small size, Mauritius is the second largest producer of sugar in the African region and among the top ten sugar exporting countries in the world.

Prior to the imposition of the U.S. sugar quota, sugar exports constituted 63 percent of Mauritius' total export revenues, making it the most sugar dependent country included in the U.S. sugar program. The United States has been one of Mauritius' most important export markets for decades. Prior to the imposition of the quota, Mauritius exported more than 100,000 tons of sugar per year to the United States. Before the recent increase in the 1988 quota, however, Mauritius was entitled to export only 8,400 tons of sugar to the United States – a reduction of more than 90 percent since 1979.

The negative consequences on the economy of Mauritius of this drastic reduction in access to the U.S. sugar market cannot be over emphasized. Approximately 75,000 people are directly employed by the sugar industry in Mauritius. One family in three draws its livelihood in full or in part from the sugar industry. Since the U.S. quota was imposed, however, more than 4,000 jobs have been lost in the Mauritius sugar industry.

These problems, of course, are not unique to Mauritius. The problems caused by the U.S. sugar quota have been encountered in differing degrees by virtually all of the countries that export sugar to the United States. Section 10 of H.R. 3101 seeks to address these problems for the 12 CBI countries by restoring their sugar quota allocations to the levels that existed during the 1983-84 quota year. While this proposal would undoubtedly be of great benefit to the CBI countries, the Subcommittee must recognize the very strong possibility that, in restoring the quota allocations of the CBI countries, it may inadvertently reduce or eliminate access to the U.S. sugar market for the other 27 sugar exporting countries. This can be seen most clearly from the fact that during the 1983-84 quota year, *i.e.*, the benchmark utilized in Section 10 of H.R. 3101, the CBI countries were assigned allocations totalling 1,058,950 tons. Even after the recent increase, the entire 1988 quota for all 39 countries is only 1,054,675 tons. In other words, in order to restore the CBI countries to 1983-84 levels, more than the entire 1988 quota would have to be assigned to these countries. Consequently, there is great danger that the quota allocations assigned to the 27 non-CBI countries would have to be reduced, if not eliminated, in order to meet the mandate of Section 10 of H.R. 3101.

In addition, the Subcommittee should be aware of the fact that Section 10 of H.R. 3101, as currently drafted, would be in violation of the obligations of the United States under the GATT in two different respects. First, as you know, import quotas are permissible under Article XIII of the GATT only if they are applied on a nondiscriminatory basis. Although the current U.S. sugar quota satisfies this standard, Section 10 of H.R. 3101 clearly would not. Second, because the CBI program confers special trade privileges on the CBI beneficiary countries, the United States on February 15, 1985, obtained a special waiver from the GATT. In granting permission to the United States to depart from the principle of nondiscriminatory treatment, the GATT expressly provided: "The government of the United States shall ensure that this waiver will not be used to contravene the principle of nondiscriminatory allocation of sugar quotas." Obviously, Section 10 of H.R. 3101 in its present form violates both Article XIII of the GATT and the terms of the February 15, 1985 waiver.

For these reasons, we suggest that the Subcommittee consider amending Section 10 of H.R. 3101. We believe that the bill's goal of aiding the CBI countries can be accomplished while avoiding injury to the 27 non-CBI sugar exporting countries by amending Section 10 to provide that the sugar quota allocations assigned to all countries participating in the sugar quota program be returned to 1983-84 levels.

Not coincidentally, a bill is currently before the Subcommittee that would accomplish this goal. This bill, H.R. 3646, the Sugar Supply Stabilization Act, was introduced last year by Congressmen Downey and Gradison and 44 co-sponsors. The Sugar Supply Stabilization Act would accomplish this goal by gradually increasing the total sugar import quota over a period of several years until it reached the level of approximately the 1983-84 quota. This increase in the quota would be accompanied by a gradual decrease in the domestic sugar support price. We believe

H.R. 3646 represents a fair and equitable solution to the fundamental cause of the problems facing the sugar industries of the CBI countries, Mauritius and the other countries that have traditionally exported sugar to the United States. Accordingly, we commend H.R. 3646 to the Subcommittee and respectfully suggest that the Subcommittee consider amending Section 10 of H.R. 3101 to incorporate the substance of H.R. 3646.

Thank you for giving me the opportunity to present these views to the Subcommittee.

Chairman **Gibbons**. Thank you for your very, very fine statement.

I don't know that there is any solution short of getting some kind of international agreement that we will just go to a free market system in sugar. When I contemplate something as big as that, it doesn't seem to be ultimately practical with the European Community's attitude toward their own sugar program and our corresponding attitude toward our sugar program. It is hard to believe that man has created something that man can't unravel, but it looks like we have.

Any of you gentlemen got some questions of the panel?

Mr. **Crane**. I don't have any questions, but I commend them for their testimony. It is kind of preaching to the choir, I think.

Chairman **Gibbons**. Yes.

Mr. **Crane**. But I think the sentiment exists here, and I just want to commend you, Mr. Chairman, for the efforts you have made to make a dent in the problem. The tragic fact is that the remedies for some of the problems that you have identified are not within the jurisdiction of this committee

Chairman **Gibbons**. No. I think we are going to have to move jurisdiction or no jurisdiction and see what the hell happens. Then let somebody else grab the ball, which I am sure they will be happy to at that time.

Do any of you represent countries like Canada that has a quota but doesn't produce enough sugar? Any of your 18?

Mr. **Pierson**. I cannot say with respect to all 18. I know that Mauritius is not in that category. Its crop far exceeds its quota, and I suspect that is so with most of the others. I will undertake to find that out and provide it for the record.

Chairman **Gibbons**. I think we are going to have to do something, and one of the things that we could do would be to provide that no sugar comes in under quota where the country does not produce enough to meet its own domestic demand. That would help a little, I don't know how much.

What other countries have much quota that don't have the—other than Canada, that don't have the domestic production? Do you all know of any? I don't know of any. Maybe staff can find some.

And I am sure our Canadian friends will get upset. But I am upset with the Canadian Senate, so it won't make much difference.

Mr. **Harding**. Well, Mr. Chairman, if I might add, here again I sympathize with Mauritius just as I do with the CBI countries.

Chairman **Gibbons**. Sure.

Mr. **Harding**. But let's face it. When the world price was down to 4 cents and the U.S. was paying about 20 cents, our sugar import program isn't a trade program. It is an aid program, and it shouldn't be going to Canada. They need a million tons of sugar just to meet their own needs. They produce 130,000 tons, so they are importing 870,000 tons and yet we allow them under this so-called quota allocation to send sugar in here and be subsidized by the U.S. taxpayers.

Now, the same thing is true with Australia. Why should we be subsidizing the sugar industry of Australia? Let's do something to use our sugar program to assist those countries like the Philippines and the Dominican Republic and Mauritius who need it.

I would think that—it has been proposed by some that we put a per capita income limit on the countries. Import our sugar from those countries that are truly friendly developing countries who are in need as——

Chairman GIBBONS. Independent.

Mr. HARDING. Right.

Chairman GIBBONS. Well, we are going to have to do something. We can't go on and say that man is creating something that man can't undo.

Thank you all very much for your help here.

Let's go vote and then get the—the boat people. And I apologize for the boat votes coming so late and all of this.

[Recess.]

Chairman GIBBONS. Let's see. Is Mr. Rousselot first, or who is first?

Mr. ROUSSELOT. Whoever you tell us, Mr. Chairman

Chairman GIBBONS. Now, you know that is not right. Mr. Rousselot, looks like you are first, and then Mr. Wiggins is next.

Mr. ROUSSELOT. Why don't I let him go first because he has got the shortest one?

Chairman GIBBONS. Statement? All right.

STATEMENT OF WALTER J. WIGGINS, PRESIDENT AND CHIEF EXECUTIVE OFFICER, DIVI HOTELS N.V.

Mr. WIGGINS. Thank you, Mr. Chairman. My name is Walter Wiggins. I am president and CEO of Divi Hotels. As the owner and the operator of 11 resorts, facilities in the islands of Aruba, Bonaire, Barbados, Cayman Islands, Bahamas, St. Maarten, St. Croix, and the Turks and Caicos, we are the largest independent resort hotel company in the Caribbean. We are a public company. We are traded on the American Exchange, and 99 percent of our shareholders are U.S. citizens or U.S. financial institutions. We are the largest employer in four of the eight islands that we serve. We employ some 2,000 people in those islands and approximately 350 Americans here in the United States in our marketing offices in Upstate New York and our architectural, engineering and purchasing offices in Miami, Florida. We have been operating in the Caribbean for over 20 years.

We opened our first small hotel in Aruba some 20 years ago. And I was hoping I would have a chance here to share with you some of the observations and insights which we have gained in the course of that experience.

We vigorously and enthusiastically support the legislation which is the subject of this hearing. However, we strongly and, equally, urgently recommend that in your review of this bill you consider tourism as one of the prime industries which deserves attention and support.

This experience today is really quite enlightening. When I learn of the complexity of this sugar dilemma that you face, my problems here seem minuscule. But, in a certain way what I am suggesting in these brief remarks I think is helpful in the long-term resolution of that problem because the tourist industry is a growth industry in the Caribbean and it is helping to absorb some of those lost jobs as sugar and bauxite go the way of progress, I suppose. So that I think that in urging this posture we help to provide in a modest way a solution to some of the dilemma that we have learned of today.

As I hope you agree, the Caribbean is certainly one of the most exciting and attractive vacation destinations in the world.

Chairman GIBBONS. Outside of Florida, it is; yes, sir.

Mr. WIGGINS. OK. [Laughter.]

Chairman GIBBONS. No. It is a beautiful place and I admire it greatly.

Mr. WIGGINS. You know, it combines the rich culture of Europe and the Americas with exciting rhythms of Africa, and it is unique in its capabilities

Chairman GIBBONS. It truly is, and I think tourism is a wonderful use of that very inviting spot.

Mr. WIGGINS. You know the personal warmth and sensitivity of these people whose greatest strength, not unlike our own, is the diversity of ethnic, social, religious heritage, and I think with just a very few exceptions this region in the Caribbean is really a societal role model of women and men of multitudinous colors who have learned to live with mutual respect and understanding and affection in a way that is hard to find and duplicate anywhere else in the world.

With its natural beauty and wealth of human resources, it is no surprise that tourism should become and has become the most dynamic economic force in the Caribbean during the course of the past 10 years.

I am hopeful that as you review this legislation you will expand the parameters of the bill to acknowledge the importance of tourism as a critical factor in the economic growth of the Caribbean. These nations, they are not looking for a handout; they are looking for a partner. And I think we have a unique opportunity here to create that partnership and appreciate the contribution which the people of the Caribbean can make towards the resolution of their own well-being.

Of course we must continue to grant assistance to the development of schools and hospitals and roads and the infrastructure that is essential for modern living. But it is important I think to avoid the creation of a welfare community of nations, and hearing a bit about the sugar problem I think reinforces the idea that whenever we can, not subsidize a nation, but give them help and support to create the means of becoming self-sufficient, then we serve the best purposes of being a good neighbor. I think that tourism has certainly become the single most important industry which has the capability of enabling these countries to become self-sufficient and to become equal partners with us in order to ensure their development as stable, democratic, economically independent nations.

The commonality of interests which make such a partnership a mutually rewarding experience is predicated on a number of factors. For example, with our company, we have annual revenues in excess of $85 million. Ninety percent of our purchases of our operating supplies are made here in the United States. That is not unique with our company. Throughout the Caribbean, most of the food and dry goods and paper products, and all of the things necessary to make a hotel operate are purchased through Miami from various suppliers throughout the United States.

In addition to that, at the present time, for example, at our company we are engaged in a $400 million expansion program in the islands of Aruba, St. Maarten, Nassau, and St. Croix. Almost all of our building materials and supplies and equipment are being purchased in the United States.

I think it is important to point out to this committee, however, that Europe and Asia—countries in Europe and Asia have become very aggressive in the Caribbean. They have programs, their governments have programs which assist these islands in developing hotel projects, provided, of course, that they purchase their supplies and materials and construction materials from the countries that guarantee the loans that build the buildings.

It is a dilemma for us at the present time. For example, the major bank that we use is not an American bank because American banks are not involved to any great extent in the Caribbean, except in Puerto Rico. So we deal with a Canadian bank. We intend to construct a $30 million hotel on the island of St. Kitts, and we have been invited by contractors in Great Britain to allow them to construct it with British materials and participate in ownership and provide funding.

Our Government really has never addressed the problems associated with that competition in the Caribbean. The Italian government has supported a hotel in Antigua. The French government supports hotels in St. Maarten. So it is something I think that our Government should view, not with concern, but with willingness to understand how the Caribbean works, the direction it is going in, and in what ways we can be good neighbors and also benefit from the markets which open to the United States.

The most important thing I think from a United States point of view that the Caribbean tourist industry represents is the opportunity to bring funds from Europe and from Asia into the Caribbean which indeed are funneled back here to the United States in a variety of ways, not the least of which is the fact that most of these European and Asian travelers will plan their trip either to or through the United States in the course of their travels to the Caribbean, so that there is a spill-off that is both beneficial and important to the United States in the development of this unique vacation destination that I think needs help.

One of the reasons it needs help, and one of the things that these funds can be used for if you see it in your wisdom to include those provisions in the bill, arises from the following fact. Worldwide the return on hotel investment is in the neighborhood of 7 percent of capital invested. In the Caribbean it is 1 percent. And the reason for that is the Caribbean only enjoys a 4-month high season. It makes some money in the high season, then it loses it all back in the barrel during the 8 off months.

What these funds can do is to help provide a promotional environment for the Caribbean, not just to the United States, but to Europe and to Asia, which will give us an expanded marketplace and provide the necessary machinery and vehicles to promote the

Caribbean as a year-round destination. Americans and many Europeans I am afraid have the view that the further south you go the hotter it gets, and, of course, that is not necessarily the case; and it is certainly not the case in the Caribbean. The summer is just as glorious as it is in the winter.

If, indeed, you consider these remarks as appropriate, we would ask that the new bill include unequivocal language which clearly recognizes the importance of tourism to the region and encourages financial support. We believe that it is essential that the bill allow funds to be allocated for the purposes of promoting the entire region, thereby benefiting all of the islands, both small and large, since every island possesses the natural resources necessary to provide unique and memorable vacation experiences for visitors from around the world.

Also, this morning, in response to one of the suggestions made by the Ambassador, we urge that emphasis be placed upon the opportunity to fund educational and training programs to be conducted on the islands through educational systems already in place, but not affordable by the majority of hotel facilities in the region.

But I think, more importantly, to allow funding of middle management and executive staff training of young Caribbean men and women through programs which are offered here in the United States in a number of our fine universities, Cornell University, Florida International University, which maintain programs in hotel administration, they are designed—these programs are designed for working professionals and they will enable these young people, these young Caribbean nationals, to assume positions of executive responsibility and leadership in their respective island countries, so that when they look at the top in the various hotels and other businesses throughout the Caribbean they are not always looking at an expatriate. They are looking at someone who has had the opportunity to grow professionally and become educated through and with the assistance of a program such as this.

These are just two examples of a myriad of programs that have the potential of assisting the growth of tourism in the Caribbean. Obviously, this legislation can provide the vehicle to promote the region as a year-round destination, thereby granting the people of the Caribbean an opportunity to help achieve financial independence.

Thank you very much, Mr. Chairman

[The prepared statement follows:]

TESTIMONY OF WALTER J. WIGGINS

BEFORE THE SUBCOMMITTEE ON TRADE OF THE COMMITTEE ON WAYS AND MEANS CONCERNING THE CARIBBEAN BASIN ECONOMIC RECOVERY EXPANSION ACT (H.R. 3101)

SEPTEMBER 15, 1988

Mr. Chairman and Members of the Subcommittee:

My name is Walter J. Wiggins. I am the President and C.E.O of Divi Hotels. As the owner and operator of 11 resort facilities on the Islands of Aruba, Bonaire, Barbados, Cayman Brac, Nassau, St. Maarten, St. Croix and the Turks & Caicos, we are the largest independent resort hotel company in the Caribbean. We are a public company, traded on the American Stock Exchange, and 99% of our shareholders are U.S. citizens or U.S. financial institutions. We are the largest employer on four of the islands we serve. We employ over 2,000 people in the islands and approximately 350 Americans in our U.S. facilities which include marketing offices in Upstate New York and architectural, engineering, design and purchasing services in our Miami, Florida, office complex. We have been operating in the Caribbean for over 20 years, having opened our first hotel in Aruba at that time.

I would like to share with you some observations and insights we have gained in the course of that experience. We vigorously and enthusiastically support the legislation which is the subject of this hearing; however, we strongly and urgently recommend that in your review of this bill, you consider tourism as one of the prime industries deserving support.

The Caribbean is one of the most attractive vacation destinations in the world. It combines the rich culture of Europe and the Americas with the exciting rhythms of Africa and the personal warmth and sensitivity of a people whose great strength, not unlike our own, is derived from their diverse ethnic, social and religious heritage. With but a few exceptions, this region of 30 separate countries is a societal role model of women and men of a multitude of colors who live and work in mutual respect, dignity and affection.

With its natural beauty and wealth of human resources, it is no wonder that tourism has become the most dynamic economic force in the Caribbean.

I am hopeful that as you review this legislation, you will expand its parameters to acknowledge the importance of tourism as a critical factor in the economic growth of the Caribbean. These Caribbean nations need a business partner who recognizes and appreciates the contribution which the people of the Caribbean can make towards their own well-being.

Of course, we must continue to grant assistance to the development of schools and medical facilities, but it is important to avoid the creation of a welfare community of nations and, therefore, it is essential that we support the single most important industry that has the capability of enabling these countries to become self-sufficient - to enable them to become equal partners in order to insure their development as stable, democratic, economically-independent nations.

The commonality of interests which make such a partnership a mutually rewarding experience is predicated upon a number of factors. For example, our company, with annual revenues in excess of $85 million, purchases 90% of its operating supplies from the U.S. This is not unique with our company; most of the hotel companies in the Caribbean acquire their dry goods from the U.S. In addition, at the present time, our company is engaged in a $400 million expansion program in Aruba, St. Maarten, Nassau, and St. Croix. Almost all of the building materials and equipment for these new facilities are being purchased in the United States.

In order to continue to grow successfully, the Caribbean must be marketed as a year-round destination, not only to vacationers from the U.S., but also to visitors from Europe and Asia who almost always include a trip to and through the U.S. in conjunction with their travel plans to the Caribbean. Expansion of tourism in the Caribbean is just "good business" for the United States while, at the same time, it helps to provide self-sufficiency for the people of the Caribbean and an extended marketplace for American business.

We ask that the new bill include unequivocal language which clearly recognizes the importance of tourism to the region and encourages its financial support. We believe that it is essential that the bill allow funds to be allocated for the purpose of promoting the entire region, thereby benefitting all of the islands, both small and large, since every island possesses the natural resources necessary to provide unique and memorable vacation experiences for visitors from around the world.

We also urge that emphasis be placed upon the opportunity to fund educational and training programs to be conducted on the islands through educational systems and programs already in place but not affordable by the majority of hotel operators in the region. We also recommend approval of funding for middle management and executive staff training of young Caribbean personnel through programs offered at a number of fine U.S. universities, such as Cornell University and Florida International University, which maintain programs in Hotel Administration designed for working professionals. Such educational programs encourage and enable young Caribbean nationals to assume positions of executive responsibility and leadership in their respective island countries. These are but two examples of a myriad of programs that have the potential of assisting the growth of tourism in the Caribbean.

This legislation can provide the means to promote the region as a year-round vacation destination, thereby granting to the people of the Caribbean the opportunity to help achieve financial independence.

Chairman **Gibbons**. Thank you, sir. I agree strongly that one of the big industries that can grow in the Caribbean is the tourist industry. Maybe as they go back and forth they will drop off a little money in Florida on the way.

Mr. **Wiggins**. There was some ambiguity, apparently, in the last bill as to whether or not it was possible to assist tourism, and we would very much like to have you remove that ambiguity. I think there was a determination that it was not allowed, and perhaps as you review it you can see it is appropriate.

Chairman **Gibbons**. I don't know why it couldn't be interpreted to help tourism, but it may be a little more difficult. We really just have sort of jurisdiction over the gateway into the United States, and by opening that gateway to their products this committee is able to help.

John.

STATEMENT OF JOHN H. ROUSSELOT, SENIOR PARTNER, ALCALDE, O'BANNON, ROUSSELOT AND WAHLQUIST, AND COUNSEL FOR ROYAL CARIBBEAN CRUISE LINE (RCCL), NORWEGIAN CARIBBEAN LINES, AND CARNIVAL CRUISE LINES

Mr. **Rousselot**. Thank you, Mr. Chairman. I would like to ask that the appendix that I attached to my statement submitted to the committee be made a part of my statement at the conclusion of my testimony.

Chairman **Gibbons**. All right. And before you go too far——

Mr. **Rousselot**. That will cut my testimony in half.

Chairman **Gibbons**. Before you go too far, I want to say for the record that when you were a member of this committee you were a hardworking, fine member. We miss you, John. It was always a pleasure to travel with you and your wife, and I know how vigorously and effectively you applied yourself. So it is nice to see you back.

Mr. **Rousselot**. Well, thank you, Mr. Chairman. I appreciate those thoughtful comments.

We will try to make sure that the cruise industry comes through Miami. As a matter of fact, they already do, as you know.

Chairman **Gibbons**. Oh, absolutely.

Mr. **Rousselot**. Many of the cruise ships originate from Miami and Tampa, so part of your wish is already fulfilled.

On behalf of the cruise industry serving the Caribbean Basin region, we can state that the cruise industry fully supports the legislation which is the subject of this hearing, H.R. 3101, The Caribbean Basin Economic Recovery Act.

As you well know, the ambassadors from 16 Caribbean countries submitted a list of proposals to your subcommittee which included several recommendations specifically designed to benefit the tourism sector. We support these provisions and ask, as our other witness has asked, that consideration be given to inclusion of some or all of these recommendations proposed. Therefore, as several witnesses before this subcommittee have stated, we believe that one particular area should be addressed in the final legislation considered by the subcommittee and then by the full committee, and that is tourism.

From the perspective of the cruise industry, we believe that one of the reasons that CBI has had some limited economic impact is because the Caribbean's number one industry—tourism—somehow was overlooked. We advocate the recognition of the vast travel and tourism industry in your proposed legislation since this industry is a major source of revenues for most of our Caribbean friends and neighbors.

In 1987, the tourism industry accounted for approximately $6.7 billion worth of foreign exchange and provided directly and indirectly over 326,000 jobs in the Caribbean region. The tourism industry has provided strong income increases as an offset to the revenue declines in the sugar, banana, bauxite and other basic industries.

For example, the Bahamas depend upon tourism for 75 percent of their national income. Jamaica depends on tourism for 40 percent of its national income. Similarly, impressive percentages could be given for all of the Caribbean Islands including Puerto Rico and the U.S. Virgin Islands. Therefore, legislation which would encourage and stimulate the development of tourism deserves the support of this committee and Congress.

The cruise industry represents a major contributor to the tourism revenues which are terribly important to the economic development of the Caribbean region. In all, 60 different cruise ships serve the North American market at any time during the calendar year. Anywhere from 40 to 50 are currently serving the Caribbean. Perhaps it should be stressed first that the international cruise industry contributes more than $1.2 billion to the U.S. economy annually through the purchase of goods and services. The U.S. airlines alone receive over $200 million with various arrangements directly from the cruise industry.

Now, the impact on the Caribbean is equally dramatic. During 1987 approximately 2.3 million cruise passengers boarded in the U.S. or Caribbean ports, bound for the Caribbean destinations. These 2.3 million cruise passengers represented an estimated 5.6 million passenger days spent in 24 Caribbean countries. These port visits represent a total of more than $310 million in revenues to the Caribbean countries in 1986, and approximately $400 million in 1987.

Best of all, these revenues were not just investments whose principal and profits are subject to repatriation. Cruise passengers impose few infrastructure costs on Caribbean ports, while providing considerable employment opportunities.

We would like to note that the impact of the cruise industry on the Caribbean has dramatically increased in the past 4 or 5 years. During this period of time the Caribbean has experienced a steady increase in the number of cruise passenger arrivals, between 10 to 20 percent a year. In 1987 there was a 12 percent increase in cruise passenger arrivals coupled with a 17 percent increase in cruise passenger expenditures.

And, by the way, I would like to say—I know there were comments today by another witness—the average passenger traveling to the Caribbean has an annual income of about $21,000. So it is not just the rich people that are going to the Caribbean on cruise ships. It is people who plan for many reasons to go to the Caribbean, and not just "rich" people or "rich" business executives.

So, in 1987 there was a 17 percent increase in passenger expenditures. Countries showing the largest increase are Barbados, St. Lucia, Martinique, St. Vincent, St. Maarten, and the port of St. Thomas.

For the Caribbean as a whole, aggregate foreign exchange earnings from tourism was over $30.6 billion for the period of 1980 to 1987. This reflects a rise of 60 percent in annual earnings, from $3.5 billion in 1980 to $6.7 billion in 1987. This strong performance by the tourism sector is in marked contrast to the downward trend over the same period of time in foreign exchange earnings from the region's exports, as I have already mentioned, sugar, bauxite and others.

In the past years tourism has evolved as a major growth industry in the Caribbean, and therefore has become a major positive force stimulating economic growth and development in the countries of the region.

We believe that this subcommittee, by the way, recognized this, along with others in Congress, when you produced a report by the Ways and Means Oversight Subcommittee entitled "Recommendations to Improve Effectiveness of CBI." In this report, Congress for the first time recognized the contribution that tourism makes to the Caribbean region. So the oversight committee stated in no uncertain terms:

> The importance of tourism and travel industries cannot be overlooked. The tourism industry provides or has the potential to provide important contributions to the overall health of the economies of the countries in the Caribbean Basin region.

Now, additionally, the General Accounting Office study of the Caribbean Basin Initiative, completed in July of 1988, and delivered to the Senate Foreign Relations Committee, concluded that "tourism represents a major and important area for potential economic development in the Caribbean Basin."

Also, in this report were comments from the U.S. Trade Representative that tourism is an important stemulus to this area, and I will not give all of his quotes. They are in my statement. But the USTR concludes, that "the development of tourism pays dividends in the form of greater numbers of visitors, creation of jobs, and increased construction activity throughout the Caribbean."

So tourism has an important role to play, and we hope that you can include these recommendations in this legislation. From the perspective of the cruise industry, we believe that if the Caribbean is to derive greater economic benefit from tourism specific incentives should be given to the tourism sector in order to stimulate the growth of this industry.

We would like to recommend a specific step which we believe would increase the flow of cruise passengers visiting the Caribbean by at least 15 to 20 percent almost immediately. This step would be to include the international cruise ships serving the Caribbean in the tax deductibility for conventions which have been offered to the Caribbean Basin nations. Many of these nations do not have the infrastructure facilities to serve large, medium, or even smaller conventions. The cruise ships have served business meetings and conventions for groups of up to 500 people and can bring these groups to all these islands of the Caribbean.

We propose that H.R. 3101 to include a provision which would allow the deductibility of conventions held aboard cruise ships traveling to certain CBI beneficiary countries. Additionally, we propose that this exemption only be allowed to those travelers who boarded vessels employing at least 15 percent of Caribbean nationals and which call in the Caribbean for 26 weeks or more per year. This provision would ensure continued employment for the Caribbean nationals on the cruise vessels currently serving this region, as well as encourage additional employment.

Now, as I mentioned earlier in my testimony, 16 Caribbean ambassadors have endorsed the idea of reinstatement of the convention deduction for cruise vessels traveling to the Caribbean destinations. They believe that this provision would be one way to help expand the tourism industry, and as the Minister of Industry, Enterprise and Tourism for the Republic of Trinidad stated in his testimony before the subcommittee in December of 1987:

> Many Caribbean countries have come to recognize that tourism is a key to unlocking foreign investment, foreign exchange earnings, and the stimulation and modernization of their economy.

When the repeal of this tax deductibility for business meetings or conventions went into effect in 1980, the economic impact on the cruise industry was enormous. Companies literally wiped from their books millions of dollars of convention business. One company reported the loss of $38 million through these cancellations.

We believe there is no estimate for the amount of dollars lost to affected Caribbean countries. Approximately 20 percent of cruise bookings in 1980 were related to business and convention meetings. Thus, the restoration of this business allowance under the Tax Code would immediately increase the numbers of passengers traveling to those Caribbean nations, and many of these groups that go would not just be the rich or business. There are many small associations that would take advantage of this, we feel, and would deduct their expenses.

Now I think it is interesting to note that the U.S. Treasury Department has publicly recognized that the revenue implications in granting this tax deductibility to cruise vessels and meetings would be very negligible, because I know you have to be conscious of revenue loss. Now, on the other hand, this change would act as an incentive for the cruise lines to increase the number of Caribbean cruises and, because of keen competition among lines, lead to more ports being visited by the cruise ships than presently.

So, in summary, let me re-emphasize the merit of the recommendations of the Ambassadors, and especially those that I have already stated. We believe that this could be added to this legislation and effectively give incentives to more people to participate in this expanding industry of tourism.

[The statement of Mr. Rousselot follows:]

TESTIMONY OF JOHN R. ROUSSELOT

BEFORE THE WAYS AND MEANS TRADE SUBCOMMITTEE

SEPTEMBER 15, 1988

Mr. Chairman and Members of the Subcommittee:

I am happy to appear today before the Ways and Means Subcommittee on Trade. In behalf of the cruise industry serving the Caribbean Basin Region, I can state that the cruise industry, as an integral part of the tourism industry, supports the legislation which is the subject of this hearing, H.R. 3101, the Caribbean Basin Economic Recovery Act. However, as several witness before this Subcommittee have stated, we believe that one particular area should be addressed in final legislation considered by this Subcommittee - and that is tourism.

As you know, the Ambassadors from sixteen Caribbean countries submitted a list of proposals to your Subcommittee which included several recommendations specifically designed to benefit the tourism sector. We support these provisions and ask that consideration be given to inclusion of some or all of the recommendations proposed.

From the perspective of the cruise industry, we believe that one of the reasons that CBI has had limited economic impact is because the Caribbean's number one export industry - tourism - was overlooked. We advocate the recognition of the vast travel and tourism industry in your proposed legislation since this industry is a major source of revenues for most of our Caribbean friends and neighbors.

In 1987, the tourism industry accounted for approximately $6.7 billion worth of foreign exchange and provided, directly and indirectly, over 326,000 jobs in the Caribbean Region. The tourism industry has provided the sole compensation for the revenue declines in the sugar, banana, bauxite and other basic industries.

For example, the Bahamas depends upon tourism for 75% of its national income. Jamaica depends on tourism for 40% of its national income. Similarly impressive percentages could be given for all of the Caribbean islands, including Puerto Rico and the U.S. Virgin Islands. Therefore, legislation which would nourish the development of tourism deserves the support of this Committee and the Congress.

The cruise industry represents a major contributor to the tourism revenues which are important to economic development in the Caribbean Region. In all, 60 different cruise ships serve the North American market at any time during the calendar year, of these 40-50 currently serve the Caribbean. But, perhaps it should be stressed first that the international cruise industry contributes more than 1.2 billion to the U.S. economy annually through the purchase of goods and services. U.S. airlines alone receive over $200 million directly from the cruise industry.

The impact on the Caribbean is equally dramatic. During 1987, approximately 2.3 million cruise passengers boarded in U.S. or Caribbean ports bound for Caribbean destinations. These 2.3 million cruise passengers represented an estimated 5.6 Million passenger days spent in 24 Caribbean countries. These port visits represented a total of more than $310 million in revenues to Caribbean countries in 1986, and approximately $400 Million in 1987. Best of all, these revenues were not investments whose principal and profits are subject to repatriation. Further, cruise passengers impose few infrastructure costs on Caribbean ports while providing considerable employment opportunities.

Cruise passenger visits in 1986 translated into $81 Million in revenue for the Bahamas, $14 Million for Jamaica, $97 Million in the U.S. Virgin Islands, $10 Million for Barbados, and $12 Million for the Cayman Islands, to give a few examples. Although smaller islands and territories in the Caribbean would have received fewer dollars, those dollars would nevertheless represent a significant portion of those islands' foreign earnings.

We would like to note that the impact of the cruise industry on the Caribbean has dramatically increased in the past 4 or 5 years. During this period of time, the Caribbean has experienced a steady increase in the number of cruise passenger arrivals of between 10-20 per cent per year. In 1987, there was a 12% increase in cruise passenger arrivals, coupled with an 17% increase in cruise passenger expenditures. Countries showing the largest increase are Barbados, St. Lucia, Martinique, St. Vincent and the Grenadines, St. Martin and the Port of St. Thomas.

For the Caribbean as a whole, aggregate foreign exchange earnings from tourism were over $30.6 billion for the period 1980 to 1987. This reflects a rise of 60 percent in annual earnings - from $3.5 billion in 1980 to $6.7 billion in 1987.

This strong performance by the tourism sector is in marked contrast to the downward trend over the same period in foreign exchange earnings from the region's exports such as sugar, bauxite and other agricultural and manufactured exports. Therefore, in the past years, tourism has evolved into a major growth industry in the Caribbean, and therefore, has become a major positive force stimulating economic growth and development in countries of the region.

We believe that this Subcommittee along with others in Congress have received valuable information on this subject from the recent report of the House Ways and Means Oversight Subcommittee entitled "Recommendations to Improve the Effectiveness of the CBI." In this report, Congress for the first time recognized the contribution that tourism makes to the Caribbean Region. The Oversight Subcommittee stated:

"The importance of tourism and travel industries cannot be overlooked. The tourism industry provides, or has the potential to provide, important contributions to the overall health of the economies of the countries in the Caribbean Basin Region. It provides jobs, training, hard currency, and investment opportunity, as well as promotes the development and imporvement of many different components of the infrastructure in the CBI beneficiary countries."

Additionally, a recent GAO Study of the Caribbean Basin Initiative completed in July 1988 and delivered to the Senate Foreign Relations Committee, concluded that tourism "represents a major and important area for potential economic development in the Caribbean Basin". Comments from the Office of the U.S. Trade Representative included in the Appendix of this Report also state that "tourism is second only to agricultural exports as a source of foreign exchange in [the Caribbean] and the mainstay for many of the Caribbean economies. [It] is the only industry in the region demonstrating steady growth since 1973".

The USTR also concludes that the "development of tourism pays dividends in the form of greater numbers of visitors, creation of jobs, and increased construction activity throughout the Caribbean. Tourism has the potential to exert a higher economic multiplier effect than many other industries because of its labor intensive character (especially if local procurement of goods and services can be increased)".

Another Study conducted in 1986 by the Department of Commerce, Office of the Under Secretary of Commerce for Travel and Tourism, outlined the significance of tourism in the Caribbean. The report stated:

> Our findings show that tourism is an important stimulus to many Caribbean economies and is a major source of foreign exchange, national income and employment. Thirteen of the islands countries of the Caribbean earn more foreign exchange from tourism than they realize from foreign direct investment. Antigua and Barbuda, the Bahamas and Barbados earn more foreign exchange from tourism than from exports of merchandise. In Barbados and the Dominican Republic, tourism is replacing the dying sugar industry as a leading earner of export revenue and is providing those countries' respective labor forces with an employment alternative. In Jamaica, tourism has replaced alumina and bauxite as the leading source of foreign exchange earnings.

From the perspective of the cruise industry, we believe that if the Caribbean is to derive greater economic benefit from tourism, specific incentives should be given to the tourism sector in order to stimulate the growth of this important industry. We would like to recommend a specific step which we believe could increase the flow of cruise passengers visiting the Caribbean by at least 15 and up to 20% almost immediately. That step would be to include the international cruise ships serving the Caribbean in the tax deductibility for conventions which has been offered to the Caribbean basin nations. Many of those nations do not have the infrastructure for facilities to serve large, medium or even smaller conventions. Cruise ships, which also do not serve large conventions but have served business meetings and conventions for groups up to 500 persons, can bring those groups to all the islands of the Caribbean.

We propose that H.R. 3101 be amended to include a provision which would allow the deductibility of conventions held aboard cruise ships traveling to certain CBI Beneficiary countries. Additionally, we propose that this exemption only be allowed those travelers who boarded vessels employing atleast 15% Caribbean nationals and which call in the Caribbean for 26 weeks or more per year. This provision would ensure continued employment of Caribbean nationals on the cruise vessels currently serving the Caribbean region. At this time, a majority of the vessels serving the Caribbean employ large numbers of Caribbean nationals. However, our proposal would encourage additional employment of Caribbeans, and would therefore directly benefit CBI beneficiary countries.

As I mentioned earlier in my testimony, sixteen Caribbean Ambassadors have endorsed the idea of reinstatement of the convention deduction for cruise vessels travelling to Caribbean destinations. They believe that this provision would be one way to help expand the tourism industry. As the Minister of Industry, Enterprise and Tourism from the Republic of Trinidad and Tobago stated in testimony before this Subcommittee in December, 1987, many Caribbean countries "have come to recognize that [tourism] is a key to unlocking foreign investment, foreign exchange earnings and stimulation and modernization of our economies."

When the repeal of the tax deductibility for business meetings or conventions went into affect in 1980, the economic impact on the cruise industry was enormous. Companies literally wiped from their books millions of dollars of convention business which had been previously booked. One company reported the loss of $38 Million through those cancellations. It is estimated that collectively, the cruise industry has lost several hundred millions of dollars in booking since that time. There is no estimate for the amount of dollars lost to affected Caribbean countries. Approximately 18-20% of cruise bookings in 1980 were related to business and convention meetings. Thus, the restoration of this business allowance under the tax code would immediately increase the numbers of passengers travelling to those Caribbean ports visited by cruise vessels by at least 18-20%.

The U.S. Treasury Department has publicly recognized that the revenue implications in granting tax deductibility to cruise vessel meetings and conventions would be negligible. On the other hand, this change would act as an incentive for cruise lines to increase the number of Caribbean cruises and, because of the keen competition among lines, lead to more ports being visited by cruise ships than presently.

In summary, Mr. Chairman, let me reemphasize the merit of these recommendations. First, we all want to see a more successful Caribbean Basin Initiative. In the first few years of its life there is reason to believe that something more must be added. Most observers of the economies of the Caribbean nations recognize the contribution of the travel and tourism industry in general to their economies, and futher they recognize the growing importance of the cruise industry as a major part of how travel and tourism can favorably impact their economies.

The CBI legislation should be amended now to recognize and encourage the increasing contribution of travel and tourism as vital building blocks for rapid new dollars in Caribbean economies. The cruise industry, with 40 to 80 vessels calling on Caribbean ports at any given time in the year, is in a unique position to provide that new economic stimulation through an immediate increase in passengers. These passengers have historically spent between $70-$100 U.S. per port. This new economic stimulus comes without the outlay of any new U.S. tax dollars or jeopardizing of domestic industries. The trigger for making that happen is the restoration of the business meeting and convention tax deduction for meetings held aboard cruise vessels, making our tax policy consistent throughout regarding foreign locations.

This is an entirely possible scenario, Mr. Chairman, and our industry would be pleased to be a part of such a great new success for the CBI.

Thank you for the opportunity to address the Subcommittee. I welcome any questions you may have on my testimony.

APPENDIX

TABLE 1

CRUISE PASSENGER EXPENDITURES IN SIX LEADING CARIBBEAN COUNTRIES

1986

Bahamas	$81.1 Million	($54.22 per pax)
Barbados	$10.6 Million	($72.90 per pax)
Bermuda	$20.1 Million	($152 per pax)
Jamaica	$14.4 Million	(51.83 per pax)
Puerto Rico	$23.1 Million	($51.45 per pax)
U.S.V.I.	$96.8 Million	($117 per pax)

TABLE 2

CRUISE PASSENGER DAYS

During 1986, 2,000,000 cruise passengers spent approximately 5,000,000 passenger days in 24 Caribbean countries. On an average cruise, a passenger visits 2.5 Caribbean countries

Country	Passengers	
Antigua	122,400	
Aruba	73,300	
Bahamas	1,495,600	
Barbados	145,300	
Bermuda	132,200	
Bon Aire	800	
BVI	22,100	(1985)
Cayman	270,900	
Curacao	125,900	
Dominica	11,500	
Dominican Republic	92,800	(1985)
Grenada	113,900	
Guadeloupe	64,100	
Haiti	40,032	(Labadee)
Jamaica	277,800	
Martinique	214,200	
Montserrat	7,300	
Puerto Rico	448,900	
St. Kitts & Nevis	27,000	
St. Lucia	58,800	
St. Martin	313,900	
St. Vincent	38,100	
Trinidad & Tobago	19,100	
U.S.V.I.	827,200	

TOTAL PASSENGERS: 2,000,000

PASSENGER DAYS: 5,000,000 (approx.)

SOURCE: Caribbean Tourism Association, 1986

TABLE 3

UNITED STATES VIRGIN ISLANDS - TOURISM FIGURES

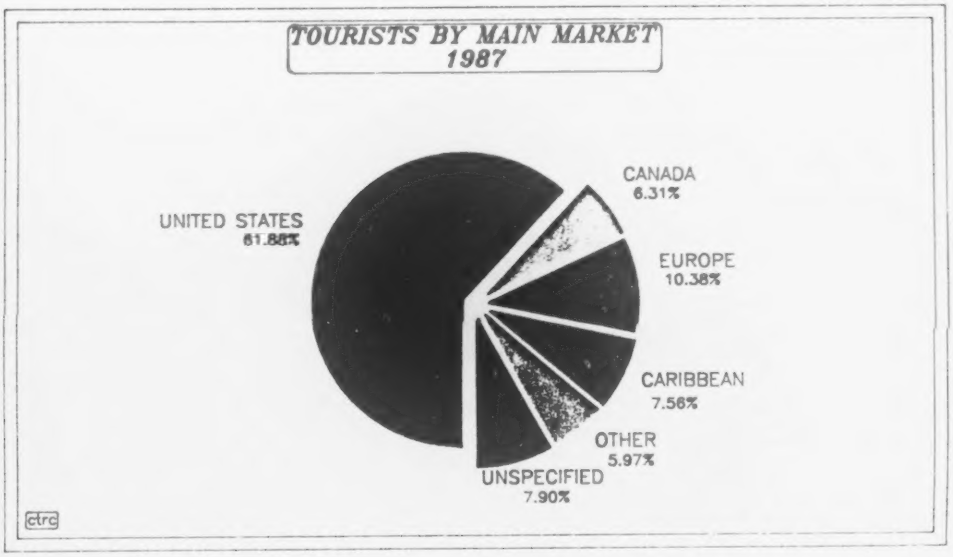
Total Visitors 1987	3,664,700
Total Expenditures 1987	$623 Million
Total Cruise Ship Passengers	955,900
Average Expenditure per Passenger	$175
Total Expenditures by Passengers	$623 Million

JAMAICA - TOURISM FIGURES

Tourism Earnings 1986	$516 Million
Tourism Earnings 1987	$595 Million
Cruise Passenger Arrivals in 1987	29,185,600

SELECTED INFORMATION
FROM THE
1987
CARIBBEAN TOURISM
STATISTICAL REPORT

CARIBBEAN TOURISM RESEARCH AND DEVELOPMENT CENTER


TOURISTS BY MAIN MARKET
1987
UNITED STATES
61.88%
CANADA
6.31%
EUROPE
10.38%
CARIBBEAN
7.56%
OTHER
5.97%
UNSPECIFIED
7.90%
ctrc

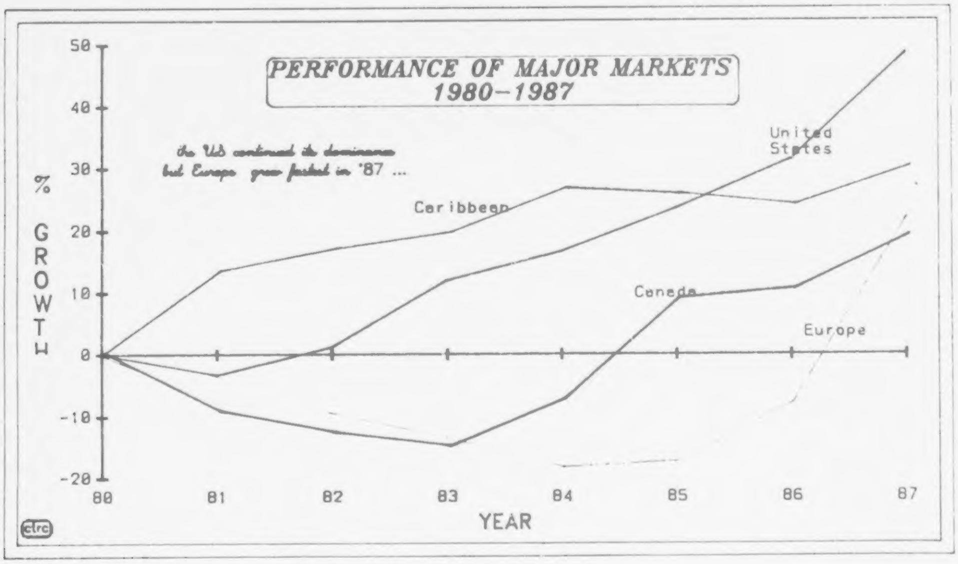

PERFORMANCE OF MAJOR MARKETS
1980–1987
the US continued its dominance
but Europe grew fastest in '87 ...
% GROWTH
50
40
30
20
10
0
-10
-20
80
81
82
83
84
85
86
87
YEAR
Caribbean
United States
Canada
Europe
ctrc

TABLE 25

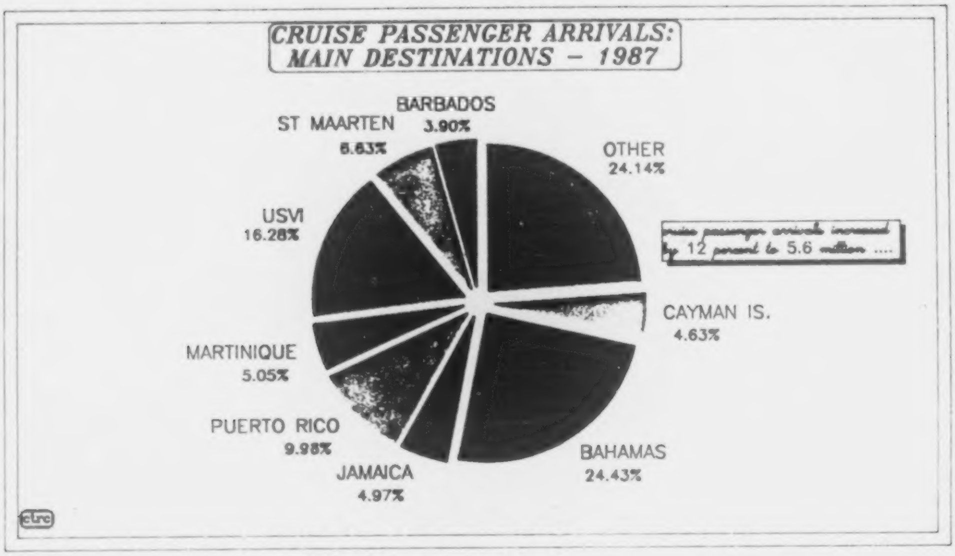
CRUISE PASSENGER ARRIVALS

							Thousands
	1981	1982	1983	1984	1985	1986	1987
Antigua and Barbuda	113.2	66.8	52.0	66.8	100.8	122.4	153.3
Aruba	55.0	51.1	39.1	30.2	72.2	73.3	80.6
Bahamas (1)	596.9	719.6	854.1	907.8	1136.5	1495.6	1434.2
Barbados	135.8	110.8	102.5	99.2	112.2	145.3	228.8
Bermuda (2)	104.7	124.2	120.8	111.4	142.8	132.2	153.4
Bonaire	12.0	6.8	0.3	2.9	2.7	2.5	3.4
British Virgin Is.	33.4	28.3	13.9	24.8	22.1	15.7	n.a.
Cayman Islands	78.0	158.3	177.2	203.6	258.7	270.9	271.7
Curacao	128.4	110.0	107.1	122.5	108.8	125.9	107.0
Dominica	5.5	2.4	6.1	3.2	6.6	11.5	12.1
Dom. Republic (3)	162.6	141.6	98.9	96.0	92.8	n.a.	166.7
Grenada	77.6	62.1	50.2	34.2	90.7	113.9	127.2
Guadeloupe (4)	25.2	32.0	34.4	64.5	n.a.	64.1	68.7
Haiti	117.8	n.a.	n.a.	n.a.	n.a.	40.0	n.a.
Jamaica	139.7	194.4	231.0	231.0	261.5	277.8	291.9
Martinique	202.5	168.0	158.6	135.5	153.0	214.2	296.7
Montserrat (3)	5.1	9.1	3.6	4.3	7.4	9.3	10.1
Puerto Rico (5)	531.2	444.1	411.2	436.0	419.3	449.0	584.4
St. Kitts and Nevis	10.9	11.1	22.8	34.1	31.5	27.0	31.4
St. Lucia	18.9	33.8	33.3	37.2	55.0	58.8	83.8
St. Maarten	106.4	92.9	73.0	n.a.	n.a.	313.9	389.1
St. Vincent and Gren.	33.4	28.9	34.4	64.0	34.0	38.1	65.7
Trinidad and Tobago	n.a.	6.0	2.9	4.6	9.6	19.1	15.5
U.S. Virgin Is.(1)	695.2	586.2	632.8	657.5	678.9	827.2	955.9
TOTAL (6)	3410	3319	3360	3570	4150	5000	5600

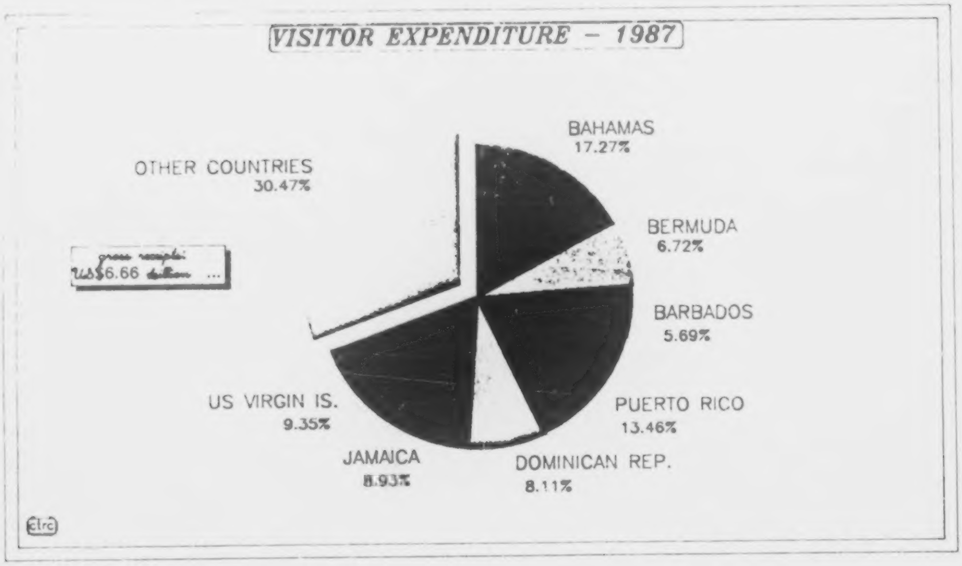
(1) At first port of entry only
(2) Excludes sea/air arrivals
(3) All sea arrivals
(4) Port of Guadeloupe only (excludes arrivals at St. Barthelemy)
(5) Fiscal year (July to June)
(6) Includes estimates for missing data

Source: Section 3 of this Report and CTRC estimates

It should be noted that, because most Caribbean cruises stop at more than one destination, the total number of cruiseship passengers is considerably less than the sum of cruiseship passenger arrivals in the various destinations. The actual number of cruiseship passengers taking a cruise in the Caribbean is estimated at about 2.5 million in 1987. Of these, about one million were on cruises calling only at ports in The Bahamas.


CRUISE PASSENGER ARRIVALS:
MAIN DESTINATIONS – 1987

ruise passenger arrivals increased by 12 percent to 5.6 million ....


VISITOR EXPENDITURE – 1987

gross receipts:
US$6.66 billion ...

2.14 ESTIMATES OF VISITOR EXPENDITURE IN THE CARIBBEAN

Estimates of visitor expenditure in the Caribbean (including expenditure by tourists, cruise passengers and other excursionists) are given in Table 26. Most of the estimates for the larger destinations (e.g. The Bahamas, Barbados, Bermuda, Jamaica, Puerto Rico, the U.S. Virgin Islands) have been supplied by the relevant national tourist or statistical offices. Many of the other estimates have been made by CTRC, based in some cases on visitor survey information. To assist the reader, estimates have been included in the table for all countries, although some of the figures should be regarded as indicative only of orders of magnitude.

In some cases (for example, the Dutch West Indies) the figures are for tourism-related foreign exchange earnings reported to the central banking authority (which is usually an underestimate of total visitor expenditure).

It is estimated that visitors spent about U.S. $ 6.7 billion in the Caribbean in 1987 -- some 17 percent more than in 1986. The increase in visitor spending is somewhat greater than the percentage increase in visitor arrivals in the Caribbean in 1987. This reflects the continuing rise in average expenditure per visitor, due partly to inflation. However, in some countries the reverse was true: the percentage increase in visitor spending in 1987 was lower than the percentage increase in visitor arrivals.

The two principal beneficiaries from visitor expenditure in the Caribbean in 1987 were The Bahamas and Puerto Rico, which received around U.S.$ 1150 million and $ 866 million (in the fiscal year 1986/87), respectively, and together accounted for over 30 percent of total receipts from tourism in the region. Other major beneficiaries in 1987 were the U.S. Virgin Islands ($ 623 million), Jamaica ($ 595 million), the Dominican Republic ($ 540 million), Bermuda $ 448 million) and Barbados ($ 379 million). The seven OECS countries together earned an estimated U.S. $ 411 million from visitor spending in 1987.

Visitor expenditure is not the same as net foreign exchange earnings from tourism; The latter measures the net economic contribution made by the tourism sector after allowing for the imported goods and services consumed by this sector.

TABLE 26

ESTIMATES OF VISITOR EXPENDITURE (1)

US $ millions

	1981	1982	1983	1984	1985	1986	1987 (R)
Anguilla	1.8	2.4	4.9	7.0	14.6*	16.9	22.2
Antigua and Barbuda	49.0*	58.9	77.1	109.7	132.5	156.2	186.7
Aruba (2)	156.4	163.1	114.5	118.4	120.8	158.1*	203.6
Bahamas	639.1	654.5	770.2	801.5	995.0	1104.9	1150.0 (P)
Barbados	261.9	251.1	251.6	284.2	309.0	326.9	378.7 (P)
Belize	7.5	7.5	8.0	10.0	11.1	41.0*	47.3
Bermuda	287.9	301.6	335.5	340.0	356.7	407.2	447.7
Bonaire (2)	5.1	6.8	5.5	3.0	4.4	6.4	10.7
British Virgin Is.	53.8	65.6	81.5	85.6	97.3	120.0	140.0
Cayman Islands	52.7	56.2	61.6	70.9	85.5	93.5	120.0 (P)
Cuba	52.4	61.2	74.3	95.5	116.4	150.0	185.0
Curacao (2)	159.9	134.6	77.6	68.9	70.6	89.2	94.0
Dominica	3.0	4.0	7.3	8.6	8.7	11.2	12.8
Dominican Republic	223.2	272.7	282.3	315.0	368.2	420.0	545.0
Grenada	17.3	17.2	18.7	22.7	32.4	39.6	42.1
Guadeloupe	93.5	107.5	116.0	98.0	95.0	163.0*	184.0
Guyana	n.a.	n.a.	n.a.	n.a.	n.a.	19.0	24.0
Haiti	55.5	55.5	61.0	66.0	69.2	63.0	69.0
Jamaica	284.3	337.8	399.2	406.6	406.8	516.0	595.0
Martinique	75.2	81.6	82.6	87.0	92.8	107.8	210.0
Montserrat	5.4	5.8	6.0	6.7	7.7	7.5	8.7
Puerto Rico (3)	649.7	699.2	690.7	681.2	722.7	743.0	896.2
Saba	n.a.	n.a.	n.a.	n.a.	n.a.	4.4	5.0
St. Eustatius	n.a.	n.a.	n.a.	n.a.	n.a.	4.9	5.3
St. Kitts and Nevis	16.1	17.3	18.6	24.2	31.0	38.0	47.4
St. Lucia	29.4	32.4	39.7	42.4	55.7	73.4	78.4
St. Maarten (2)	115.2	117.3	121.9	128.0	150.0	159.4	170.0
St. Vincent and Gren.	15.0	16.0	16.7	19.0	23.0	29.3	35.2
Suriname	40.6*	32.8	17.9	13.3	9.0	7.8	8.0
Trinidad and Tobago	151.9	178.6	205.7	197.8	197.3	83.2**	91.6**
Turks and Caicos Is.	4.8	5.2	5.5	6.9	12.2	21.7	24.0
U.S. Virgin Islands	317.5	312.5	356.3	434.0	507.4	509.8	623.0
TOTAL (4)	3840	4080	4340	4580	5070	5692	6660 (P)

* New series
** Based on new exchange rate
(1) At current prices
(2) Central Bank and CTRC estimates
(3) Fiscal years.
(4) Includes estimates for missing data

Source: National and CTRC estimates.

2.15 TOURISM RELATED EMPLOYMENT IN THE CARIBBEAN

Employment In Accommodation Establishments

Employment in accommodation establishments (namely, hotels, apartments, villas, etc.) is an important component of total employment in the tourism sector. Many countries in the Caribbean now carry out monthly surveys of accommodation establishments in order to obtain statistics on occupancy rates. Some countries also use such surveys to obtain information on the number of persons employed in these establishments. Others obtain information on persons employed from general surveys of establishments. It should be recognized, however, that the number of people employed only measures the absolute level of direct employment, and that such measures, while useful, do not present a full picture of the employment situation in the accommodation sector.

A better measure of employment is the number of hours worked per week or month of employment. This, if available, would permit a superior profile of employment in the accommodation sector to be generated. CTRC has recommended that all member countries should carry out monthly surveys of accommodation establishments to provide information on numbers employed, hours worked, male/female ratios, etc., as well as on occupancy rates and length of stay.

Estimates of the average number of persons employed in accommodation establishments for 14 countries for which information is available at CTRC is given in Table 27. These countries cover about 60 percent of the estimated total number of rooms in accommodation establishments in the Caribbean. The number of people employed in accommodation establishments in these 14 countries is estimated at 65,500.

The ratio of employment to rooms in the Caribbean is higher in the winter than in the summer, when hotel occupancy rates are lower. It also varies markedly between different types of accommodation, being generally higher in larger, more luxurious hotels than in smaller hotels and self-catering apartments. For the 14 countries for which information is available, the the average employee per room ratio is 1.02. If this relationship were to hold for the Caribbean as a whole, the total number of persons employed in accommodation establishments in the Caribbean (including Bermuda) in 1987 would be some 108,700 (that is, 102 times 106,600).

TABLE 27

EMPLOYMENT IN ACCOMMODATION ESTABLISHMENTS IN 1987 (1)

	No. of Rooms	Persons Employed	Employee/ Room Ratio
Antigua and Barbuda	2604	3720*	1.43
Aruba (2)	2282	2,300	1.00
Bahamas (2)	12887	14,500	1.13
Barbados (3)	4804	4242	0.88
Bermuda	5010	5,084	1.01
Grenada	737	630	0.85
Guadeloupe (2)	4226	2,600	0.62
Jamaica	14031	16,336	1.16
Martinique (4)	1931	1,247	0.63
Puerto Rico	7175	6,700	0.93
St. Lucia (2)	1457	1,853	1.27
St. Vincent and Gren.(2)	985	946	0.96
Trinidad and Tobago (2)	1785	1548	0.87
U.S. Virgin Islands (2)	4091	3,350	0.82
TOTAL (14 countries)	64,055	65056	1.02
TOTAL (Caribbean)	106,600	108,700	1.02

(*) Full-time job equivalents
(1) Or latest year for which information is available
(2) 1986
(3) 1985 (surveyed establishments only)
(4) October 1987

Total Employment Dependent on Tourism

The total number of persons directly and indirectly dependent on tourism for a living is several times larger than those employed in accommodation establishments. These persons would include taxi drivers, workers in bars, restaurants, casinos, souvenir shops and others working in industries directly or indirectly dependent on tourism, including those employed in the public service.

National estimates of total employment, both direct and indirect, dependent on tourism are available for Aruba, The Bahamas, Martinique, Puerto Rico, St. Vincent and The Grenadines and the U.S. Virgin Islands. For these six countries total employment generated by tourism was about four times greater than employment in accommodation establishments.

SUBMISSION BY WASHINGTON AMBASSADORS OF CBI COUNTRIES TO HOUSE WAYS AND MEANS COMMITTEE, JUNE 1987

Areas in Which U.S. Policy Initiatives Could Benefit the Development of Tourism in CBI Countries.

1. Technical Assistance and Educational Programs

   Financial support should be provided for Tourism Training Institutions located in CBI countries and to tourism training programmes available at U.S. institutions of higher learning, such as those programmes presently offered at the University of Michigan, the University of Las Vegas, the University of Hawaii, Cornell and Buffalo Universities in New York and Florida International University. All governments of CBI countries agree that to realize and sustain the maximum growth potential of tourism, training of managers and staff in all aspects of the tourism industry is imperative.

2. Tourism Facility for Investment Opportunities

   The CBI countries would welcome the establishment of a data bank under the auspices of USAID or OPIC which would maintain a record of the Tourism development plans of CBI beneficiary countries. Potential investors could than use these plans to examine investment project feasibility.

3. Tourism Marketing Facility

   Such a facility would produce materials and publications tied to CBI countries promotional strategies. It could further assist in the coordination of a joint marketing and joint packaging programme to link tourism in the Southern United States to tourism in CBI designated countries.

4. Economic Impact Study

   The Department of Commerce could be instructed to undertake a study on economic development and tourism industries in the CBI countries and make a final report to the U.S. Congress. Such a study could include information on the mutual benefits received by the U.S. and Caribbean Basin Country economies as a result of tourist activity in the area (i.e. economic advantages enjoyed by U.S. owned and operated travel agencies, airlines, hotel chains and increased exports of tourist related products to the CBI countries).

5. **Onboard Convention Tax Exemption**

   Extension of the Convention Tax Exemption benefit to Cruise-ships which spend a specific percentage of their port days at CBI designated countries. This consideration would be of particular benefit to beneficiary countries with limited onshore convention facilities.

6. **Consideration may also be given to extending tax concessions to U.S. investors in the CBI countries, who grant tourism related fellowships/scholarships to residents of CBI countries to improve their tourism product.**

7. **Increased Alcholic Beverage Allowance**

   Complementary to the proposed increase in the dutiable allowances for U.S. visitors returning from CBI designations, consideration may be given to increasing the amount of non-dutiable alcohol allowed United States residents returning from CBI designations.

SOURCE: **June** 23, 1987 to Congressman J.J. Pickle, Chairman
Subcommittee on Oversight

Signature Countries: Embassy of Antigua & Barbuda, Embassy of **the Dominican** Republic, Embassy of the Commonwealth of **the Bahamas**, Embassy of El Salvador, Embassy of Barbados, **Embassy** of Grenada, Embassy of Belize, Embassy of Guatemala, **Embassy** of Costa Rica, Embassy of Haiti, Embassy of **Hondoras**, Embassy of St. Kitts & Nevis, Embassy of Jamaica, **Embassy** of St. Luica, Embassy of Panama, Embassy of **Trinidad** & Tobago.

Chairman GIBBONS. Thank you, John.

Mr. ROUSSELOT. Thank you

Chairman GIBBONS. Very well done.

I was asked by Mr. Crane to tell both of you, and for the record, that he wholeheartedly supports your position. I have no trouble with your position, but the chairman has told me to keep tax matters out of this.

Mr. ROUSSELOT. Yes, I know he has.

Chairman GIBBONS. And I honor his instructions. You have done a good job in promoting this. I would hope that it could get favorable consideration. But I don't think we will get this bill marked up this year. Maybe we will get some better instructions next year as to what we can and cannot include in the bill.

Mr. ROUSSELOT. Well, I think if the chairman of this Committee could be assured that this is not a major revenue loss item that would be helpful. Because he has to be mindful of that concern all the time.

Chairman GIBBONS. All the time. It is a constant struggle.

Mr. ROUSSELOT. And we know that.

Chairman GIBBONS. Well, this concludes our hearing for the day, and if the American Textile Association ever shows up, they will be welcome. I am sure they don't have enough people on the payroll to cover a meeting like this.

Mr. ROUSSELOT. I am not here prepared to speak for the textile industry.

Chairman GIBBONS. Let's go off the record.

[Whereupon, at 3:05 p.m., the hearing was adjourned.]

[Submissions for the record follow:]

STATEMENT OF THE AMERICAN CHAMBER OF COMMERCE OF JAMAICA ON HR3101

The American Chamber of Commerce of Jamaica is an organization of some 120 companies which are predominately American owned and all of which are engaged in business or trade with the United States.

The Chamber is dedicated to the principles that economic growth can best be facilitated through trade which is supported by policies that promote free trade without the restraints presented by protective barriers. It is our belief that the strengthening of trade and business links with the United States is in the long-term interest of and benefits both Jamaica and the United States.

We therefore urge the United States Congress to swiftly and resolutely pass H.R. 3101, the Caribbean Basin Economic Recovery Expansion Act of 1987.

The original CBERA has created many business opportunities, helped to direct attention on the Caribbean Basin as a possible investment location and developed an outward, export, orientation for Caribbean economics. However, certain potential export products which could have had a significant impact on the economics of the region such as textiles, tuna and leather goods were specificially excluded from the benefits of the legislation and the original CBERA was adversely amended due to pressure from U.S. producers virtually destroying an infant ethanol industry.

Regarding certain specific provisions which are contained in H.R. 3101 we wish to comment as follows:

- The extension of CBI until 2007 is integral to the success of the program. We recommend that the CBI be a continuing program automatically receiving twelve year extensions unless Congress, with adequate notification, specifically halts extensions. This is important in order for large-scale investments which require many years of operations to recover costs to be made.

- We endorse expanding duty-free treatment for items in currently excluded categories as presently proposed.

- We endorse a seperate inquiry test for CBI countries in countervailing duty and anti-dumping cases.

- We endorse raising the duty-free allowance for returning U.S. citizens.

- The ethanol provision presently included in H.R. 3101 we recommend be amended to that adopted by Conferees on the Omnibus Trade Bill which restores original CBERA law through 1989 for all eligible facilities and provides for International Trade Commission (ITC) and General Accounting Office (GAO) study of the ethanol industry.

- We strongly endorse the restoration of sugar quotes to 1984 levels. Jamaica has lost nearly U.S.$8 million in sugar exports and foreign exchange earnings due to recent reductions in U.S. sugar quotas.

We wish to also make the following additional comments and recommendations:

- U.S. aid to the region should be targeted towards infrastructure development in the region. Poor roads, power and water supplies are currently an impediment to investment and economic development.

- U.S. aid for educational programs should be expanded in order to provide well trained and motivated employees and entreprenuers for industry and commerce.

- U.S. aid in the region should be targeted for private sector led economic development and programs implemented to make available funding for private projects at internationally competitive interest rates. In Jamaica the local development banks interest rates exceed fifteen per cent, an impediment to meaningful development.

The production and trafficking in drugs is a problem throughout the Caribbean Basin. The Congress should note that the legitimate businessman or trader is not the culprit but instead the victim of such activities. Tenants should be included in H.R. 3101 which instruct U.S. drug enforcement agencies to adopt policies that minimize the adverse effects on legitimate trade. We also propose that a percentage of fines imposed be rechannelled into drug eradication and interdiction programs in cooperative countries.

We wish to stress the importance of passage of H.R. 3101 in it's strongest possible form as quickly as possible. Current CBBRA and Trade Laws already include protections of U.S. industry should particular exports from the region be shown to cause damage. It is therefore not necessary to restrict items from qualification for CBI benefits.

Finally, the U.S. must reaffirm it's commitment to the economic well being of the Caribbean and not allow the integrity of the CBI, the Congress and the American people to be questioned.

AMERICAN DEHYDRATED ONION AND GARLIC ASSOCIATION (ADOGA)

INTRODUCTION:

The American Dehydrated Onion and Garlic Association is comprised of the leading U.S. companies that dehydrate domestically produced onion and garlic. ADOGA was formed in 1956, as a non-profit, voluntary organization to standardize trade specifications, promote uniform nomenclature and support research programs to improve the standards of excellence, quality and safety of dehydrated onion and garlic products that are processed primarily in the state of California.

Today there are four domestic producers of dehydrated onion and garlic in the United States. Three of these companies are ADOGA member firms, and represent over 90% of the domestic production of the dehydrated product in this country. The producers operate six plants located in small towns in central California and Nevada, employ over 5,000 people, either directly or by the supportive farming activities of the industry, and obtain their raw supplies from over 100 farmers. It is estimated that an additional 3,000 jobs are dependent upon ADOGA member activities, primarily in the small agricultural communities where ADOGA facilities are located, making ADOGA a major factor in those economies. These companies have been successfully built through the free enterprise system, and stand proud that their small agricultural industry is uniquely free of government subsidies.

The onion and garlic industry is a relatively small, highly specialized agriculture industry. The industry has grown as an economic factor in this country to where, according to the most recent statistics, approximately 1 billion grower produced pounds of onion and garlic is contracted for with the dehydration industry. This production reaches the consumer market as approximately 200 million pounds of dehydrated product that is used as an ingredient in many food formulas as flavorings and seasonings. Approximately 80% of the output is distributed to food manufacturers and food service industries. About 5% is marketed at retail by spice manufacturers.

The American Dehydrated Onion and Garlic Association would like to acquaint the Congress and the Administration with its specialty crop industry located primarily in California, with support operations in the States of Nevada and Oregon, which is a success story in the economics of today's agriculture.

The onion and garlic dehydration industry is part of the California specialty crop industry. Agriculture plays a vital role in the economy of the State of California and the Nation. California agriculture has received world-wide recognition for its quality, variety and abundance, and is truly one of the most diversified regions in the world with over 250 commercial crops and livestock commodities. California has been the leading agriculture state in the U.S. for the past 39 years. California food products have made an important contribution to our nation's high standard of living by providing high quality products at reasonable prices and by the vast amount of food products exported to other countries thereby contributing to the reduction of our trade deficit.

ADOGA's objective in submitting comments on the impact of the Caribbean Basin Initiative is to call attention to the fact that government policies on free trade could deny the continued success of the domestic dehydrated onion and garlic industry. Although ADOGA firms have not experienced problems with duty free imports from any of the CBI member countries to date, there is great concern that protections against transshipments through CBI countries must be strengthened and enforced through strict rules of origin. The members of the American Dehydrated Onion and Garlic Association have become increasingly alarmed about the issue of transshipments, and appeals to the International Trade Commission, Congress and the Administration to give this area considerable thought as the discussions to extend and expand the Caribbean Basin Initiative move forward in Congress.

ADOGA fears that removal of these protections against transshipments will open the United States' market to dehydrated products from countries not otherwise eligible for duty-free treatment, particularly Europe, Egypt, Argentina, Mainland China and Taiwan, to name a few.

To guard against such transshipment it is essential that strict rules of origin be observed in the CBI. The present U.S. rule permitting a minimum of 35% of the product's value to be an indicator of country of origin is inadequate. Expanded trade with CBI countries increases the potential for transshipment of dehydrated products from countries not eligible for the duty-free route to the U.S. market. It is essential to tighten the U.S. rules of origin.

ADOGA is concerned as well that rule of origin language similar to that in the U.S.-Canada Free Trade Agreement may be adopted in the CBI expansion legislation. The U.S.-Canada Free Trade Agreement contains provisions on transshipment that are not acceptable to the members of ADOGA. These provisions are not sufficient to protect U.S. agricultural industries. The following is an excerpt from that agreement:

Article 304 under Definition states, in part,
"... direct cost of processing or direct cost of assembling

means the cost directly incurred in, or that can reasonably be allocated to, the production or goods, including:...
"C) the cost of energy, fuel, dyes, molds, tooling and the depreciation and maintenance of machinery and equipment without regard (emphasis added) to whether they originate within the territory of a party;..."

Annex 301.2-4(a) states,
"4. Notwithstanding paragraph 3, goods shall nonetheless be considered to have been transformed in the territory of a Party and be treated as goods originating in the territory of the Party; provided that:
"a) the value of materials originating in the territory of either Party or both Parties used or consumed in the production of the goods plus the direct costs of assembling the goods in the territory of either Party or both Parties constitute not less than 50 percent of the value of the goods when exported to the territory of the other Party, and...".

These statements, in our opinion, allow for substantial transshipments that would not provide the assistance we believe is intended for the parties involved in the trade agreements, but would in fact allow the parties to become transshipment points and provide trade benefits not intended for other parties. The rules cited above in the Canadian Agreement are not fair trade rules and do not help the importing nation by allowing lax transshipment rules.

The firms comprising ADOGA, which represent over 90 percent of the domestic dehydrated onion and garlic industry, contract totally on a competitive basis for all of their growing crops each year. The industry takes all of the market risks thereby assuring the grower of a profitable market. These industry contracts are very much in demand. The U.S. dehydrated onion and garlic industry receives no direct subsidies for its growing crop. We believe that any change in federal trade regulations, wherein the domestic dehydrated onion and garlic industry must compete with foreign producers, who are in many instances heavily subsidized and pay much lower wages than the U.S. industry, would constitute unfair trade legislation.

The ADOGA member firms have been successfully built through the free enterprise system and stand proud in the fact that their small agricultural industry is uniquely free of government subsidies.

When the gross wage differential is considered between importing countries and the United States, it becomes very impractical for the domestic industry to spend large amounts of capital to stay competitive. It is however, very beneficial to the consumer and to industries such as the dehydrated onion and garlic industry to remain in business to assure:

1) a quality product, free of pesticide contamination,

2) a dependable source of supply for the many food formulas where ADOGA's products are used as ingredients,

3) a successful and profitable crop for the many California, Nevada and Oregon growers.

Although California's 33,000,000 acres of farmland accounts for just 3% of the U.S. farmland, it produces 50% of the Nation's fruits, nuts and vegetables. To allow unfair imports to jeopardize such a concentrated industry would not only have a severe impact on an area that is vital to our food chain, it would lower the quality of food available to the consumer by permitting the entry of lower quality commodities in the U.S.

Therefore, while the industry is small compared to other agriculture crops, the dehydrated product impacts many consumer food items as an ingredient. For this reason, quality and a dependable source of supply is paramount to many end user products such as soups, baby food, catsup, sauces, direct seasoning of home cooked items and many others. Inferior imported product will not offer the food processing industry the dependable and contaminate free products they now enjoy, (for example, foreign production often has poor pesticide control).

According to a September 1986 GAO Report on Pesticides (GAO-RCED/86-219), imported products do not meet the same quality standards that ADOGA and other U.S.-food producers meet or exceed. Achieving this higher level of quality is costly for domestic producers. Therefore, either the U.S. industry should be relieved of this burden or preferably, for the protection of the U.S. consumer, importers should be held to the same standards, and sufficient enforcement tools should be provided to ensure compliance.

The American consumer would not benefit from the influx of low-price transshipped imports of dehydrated onion and garlic. The quantities or the products which are used as flavorings and seasonings are too small in consumer-sized food portions to have price savings passed on to them.

Summary:

ADOGA wishes to express its interest in maintaining a fair trade environment for our small industries and asks that you give careful consideration to "back doors" that will open if strict, equitable rules of origin are not maintained. We recommend that a very slow approach be taken in changing regulations so that an adequate response can be made by ADOGA as well as other specialty agricultural entities.

ADOGA member firms are concerned over the extension of the Caribbean Basin Initiative and request that protections against transshipments through CBI member countries be strengthened and enforced. ADOGA believes that the minimum value added requirement should be increased from 35% to 65% along with maintaining the requirement that products originating out of the area must be substantially transformed to qualify for the benefits of the CBI.

The thrust of continuing the CBI should be, as originally intended, to strengthen the economies of member nations. The above requirements are essential to insure this while at the same time affording reasonable protection to vulnerable U.S. industries from nonmember countries using the CBI for duty-free access to U.S. market.

Statement of

The American Textile Manufacturers Institute

This statement is submitted by The American Textile Manufacturers Institute (ATMI), the national association of the textile mill products industry, on behalf of its member firms. ATMI's members are engaged in every phase of textile product manufacturing and marketing and account for more than eighty percent of the volume of the domestic textile industry.

ATMI wishes to register its opposition to H.R. 3101, the Caribbean Basin Economic Recovery Expansion Act of 1987, on the grounds that it would violate long-standing U.S. Government policy regarding textile and apparel imports, would result in significant job losses for American textile and apparel workers and is unnecessary.

ATMI recognizes that it is in the political, strategic and humanitarian interests of the United States to promote economic development and growth in the countries which are the designated beneficiaries of H.R. 3101, but such growth should not be at the expense of American textile and apparel workers, many of whom are minority group members and have no other opportunities for comparable employment in their communities. The economic well-being of American citizens ought always to have the highest priority of their government; exporting American jobs is not good public policy.

The damage that would result to American firms and American workers by the enactment of H.R. 3101 is the inevitable result of the provisions contained in Section 4(d)(1) and Section 7(a). Section 4(d)(1) encourages several countries which do not currently export textiles and apparel to the United States to do so by guaranteeing them duty-free entry of such exports up to a specified level. This would only add to the burden currently faced by the domestic industry and its workers because of imports from 160 other countries. In addition, the implementation of the provisions of this section would be an administrative nightmare for both would-be exporters and the United States and the chaos in commercial channels that would result from trying to properly administer these provisions can only be imagined.

The provisions of Section 7(a) are of even greater concern and contain the potential for far greater damage. This section would create tariff item 807.50 and provide duty-free and quota-free entry for apparel assembled in a beneficiary countries from "components...that are products of the United States". This language is largely duplicative of the provisions currently contained in tariff item 807.00, except that it extends both duty-free and quota-free entry to eligible articles. The glaring fault with both 807.00 and 807.50 is that their provisions apply to fabric produced anywhere in the world and merely cut into component pieces in the United States. If H.R. 3101 were to be enacted, it is a certainty that enormous volumes of fabric, much of it subsidized or dumped, would enter the United States, be merely cut to shape - an operation that accounts for less than five percent of the cost and less than two percent of the total labor associated with garment manufacturing - and sent to beneficiary countries for assembly and export to the United States. Thus, not only the jobs of American apparel workers, but those of textile workers as well would be irretrievably lost, not only to CBI countries, but to China, South Korea, Taiwan, Japan Italy, Brazil, etc. as well. Even today, much of the apparel imported into the United States from CBI countries is made from foreign fabric. H.R. 3101 would ensure that even more - or perhaps even nearly all - apparel imported from CBI countries had no American input except the cutting.

Beyond these concerns lies the fact that H.R. 3101 would overturn long-standing U.S. Government policy regarding textile and apparel imports. Recognizing the import burden borne by the domestic industry, successive administrations and successive

Congresses have ensured that textiles and apparel are exempt from the provisions of the Generalized System of Preferences and have been since 1975. Furthermore, textiles and apparel were also exempt from the original Caribbean Basin Economic Recovery Act (CBERA). Thus, the concerns the intentions of Congress have been and remain clear and should be even clearer since textile and apparel imports have continued to grow - dramatically so - since the CBERA was enacted. What was deemed necessary then is even more necessary today.

ATMI also objects the provisions of Section 4 which modify the original language of Section 213A of the CBERA. In particular, the provisions providing duty-free entry for products which the U.S. International Trade Commission finds "are not produced in the United States in quantities sufficient to meet the domestic demand" or "no directly competitive articles are produced in the United States" are inappropriate and would create more problems than solutions. The question of whether or not a particular article or category of product is produced "in quantities sufficient to meet demand" borders on the metaphysical. Endless wrangling and dispute can be the only result of the application of this subsection and the only beneficiaries thereof will be Washington - based law firms. As for the determination of whether or not products directly competitive with imports from Caribbean nations are produced in the United States, the answer is more clear-cut. There are no textile or apparel products imported from CBI countries that are not identical to or directly substitutable for items produced in the United States. None. Thus, in the case of textile and apparel products, this subsection is unnecessary.

Extending duty-free and quota-free entry to Caribbean exports of textiles and apparel - primarily the latter - would, has been noted, not only violate long-standing U.S. policy but is also unnecessary as a means to foster the economic growth of the region. CBI counties are already the fastest-growing suppliers of textiles and apparel to the United States and their growth during the past few years has been remarkable. As Appendix A, attached, shows, textile and apparel imports from CBI countries have grown from less than 395 million square yards equivalent (SYE) and $631.8 million in 1985 to 780 million SYE and $1,333 million during the year ended June, 1988. Textiles and apparel have, in just these few short years, become a major source of employment and a major earner of revenue for Caribbean counties. In other words, they are doing well even without H.R. 3101.

The great majority of this growth has resulted from the Special Access Program for Caribbean apparel exports announced by President Reagan in February, 1986. Future growth in CBI apparel exports to the U.S. under this program is assured since, in the words of the United States Trade Representative, the requests for increases in the Guaranteed Access Levels (GALs) accorded Caribbean counties under this program "are granted virtually automatically".

Finally, it must be noted that to replace the current regulations, reduced duties and special programs governing textile and apparel imports from CBI countries with a regime of duty-free and quota-free entry would immediately attract a flood of Asian exporters to the region in order to evade the quotas and duties applied to their exports from their home countries to the U.S. The profits earned from these exports would then be repatriated back to banks in Asia and contribute nothing to further economic development in the Caribbean.

H.R. 3101 would also provide an irresistible incentive for the transshipment of textiles and apparel through the Caribbean region to the United States. It is well understood that the U.S. Customs Service simply does not check the origin of imported products not subject to restraint. Making such products also not subject to duties only lessens Customs' need - and Customs' willingness -to carry out watchdog functions. Caribbean government officials have, in the past, acknowledged that attempts to transship through their countries have been repeatedly made and that they have denied entry at their ports when they have discovered attempts at transshipments. Left unsaid was how many transshipments went undetected and eventually did enter the U.S. and whatever happened to the merchandise on the vessels that were turned away. The fear of massive transshipments through the Caribbean region under the auspices of H.R. 3101 is not imaginary; it is very real. The economic incentives contained in H.R. 3101 are too enticing for it to be otherwise.

In consideration of the foregoing concerns and in the interests of American workers' livelihoods, ATMI opposes H.R. 3101 and requests unfavorable consideration of it by the Congress.

APPENDIX A

U.S. TEXTILE & APPAREL IMPORTS FROM CBI BENEFICIARY COUNTRIES

	Million Sq. Yds. Equivalent	Million $
1983	242.6	395.4
1984	309.8	498.6
1985	394.9	631.9
1986	607.5	835.0
1987	723.4	1,156.0
1988*	780.1	1,332.7

* 12 months ended June

[BY PERMISSION OF THE CHAIRMAN:]

Statement of Hon. Edward A. Laing, Ambassador of Belize

Mr. Chairman, Members of the Subcommitte on Trade:

I appreciate this opportunity of addressing this distinguished Subcommittee, of the Committee of Ways and Means, on H. R. 3101. The Subcommittee and the larger group of sponsors of this Bill must be warmly congratulated for this initiative, which would expand the Caribbean Basin Economic Recovery Act of 1983. Above all, permit me to thank you, the Administration and the Congressional Friends of the Caribbean for regarding the health of the fledgeling Caribbean economies as a paramount policy concern of the United States.

The people of our region cannot continue to be mainly primary producers if we are to avoid expanding the international dole, massive migration to the North and social unrest, which respects no boundaries. That the Bill's sponsors recognize this is evident from their efforts therein to:

-create opportunities for economic diversification,
-preserve the principles of specialization and comparative advantage, and
-provide facilities for value-addition, particularly in the more disadvantaged countries.

ECONOMIC DIVERSIFICATION

The Bill's provisions promoting economic diversification include those on the "special category articles" in section 213 of the Caribbean Basin Economic Recovery Act (sec. 4), the removal of quotas for products wholly made from U.S. materials (sec. 7(a)), the increase in the duty-free allowance for returning residents (sec. 7(b)), cumulation in countervailing duty and antidumping law cases (sec. 8) and ethyl alcohol (sec. 9). However, recognizing the acute needs of the Caribbean and the immense difficulties with diversification in our essentially monoproduct economies, I would exhort the Subcommittee to craft provisions which are as flexible and workable as possible. For instance, it would be desirable to simplify section 4, which, as presently written, would be difficult to operate.

SPECIALIZATION AND COMPARATIVE ADVANTAGE

It is not proposed that economic diversification be forced on Caribbean economies at the expense of the basic tenets of the fundamental free trade principles of specialization and comparative advantage. They should all operate together. This is illustrated by tourism. Lacking few mineral resources, skilled work forces or capital, the Caribbean's main assets are its scenic and other natural resources, historical riches and the charm of its human resources. It therefore provides attractive tourism destinations, especially such countries, as Belize, with scores of such hidden treasures as Maya historical sites, the longest coral reef in the Americas and animal preserves.

The Bill seems to acknowledge the importance of tourism with its provision for increased duty-free allowances to returning American tourists. This will contribute to the growth of that industry, thus both fostering economic diversification and underpinning specialization and comparative advantage.

However, we must remember that Caribbean tourism is highly complementary with tourism in the southern United States. We all share in the benefits of increased tourism. I therefore strongly urge that the duty-free allowance be significantly increased. Furthermore, the new Act should (1) clearly express a United States policy to expand Caribbean tourism, which is symbiotic to American tourism, and (2) encourage legislative and executive action by the end of this legislative session tangibly to foster the expansion of such tourism.

At the same time, try as we can to diversify away from sugar, comparative advantage makes it clear that several of the larger territories are most experienced and efficient at producing sugar. The proposal to restore our sugar quota to 1983 levels is therefore one which is dictated by all the circumstances.

VALUE-ADDED IN THE DISADVANTAGED COUNTRIES

Disadvantages of Belize and Certain Eastern Caribbean States

Section 3 of the Bill wisely recognizes that all of the CBI countries, while poor, are not equally disadvantaged. In particular, Belize and certain Eastern Caribbean States have very limited resource bases. There are lower levels of development than in most other CBI countries; e.g., in Belize, there is a much smaller absolute and relative number of first class hotel rooms than elsewhere in the region.

Infrastructures are weak. For instance, in Belize the important southern highway to our deepest port and fertile banana-producing area is unpaved. The same is the case with the roads in our scenic Mountain Pine Ridge resort area. There are no bridges over the streams leading to our north-east forest preserves. In Belize and most, perhaps all, of the countries, transmission lines shed loads and electric generation is inadequate. Transportation facilities, especially for international shipping, are limited and expensive.

Our per capita incomes are uniformly low though, deceptively, just high enough to disqualify our countries from International Development Association (IDA) assistance. Yet some of the poorer countries with lower per capita incomes have what Belize and these Eastern Caribbean countries do not: manufacturing bases. By comparison, the only "manufacturing" in Belize are small import-substitution plants, for bathroom tissues and matches, and, for the export market, garment-stitching plants employing fewer than 800 persons.

These countries all have small, poorly-trained populations and Belize, a relatively large country, over twice the size of Jamaica, has the added disadvantage of one of the lowest population densities in the world. Belize also has the highest ratio, 1:6, of first generation immigrants (mostly unskilled refugees) in the Hemisphere. I need not belabour to this distinguished Subcommittee the strain these factors impose on the economic and social resources of, and the threat they pose to, our stable democracy.

Justification for Differential Measures

Such gross disadvantages justify the special measures of the type which have been proposed in section 3 of the Bill for certain Eastern Caribbean countries, and recommended before this Subcommittee, by all the CBI beneficiaries, for Belize. Such measures are consistent with established United States and global policies favouring differential treatment of the lesser-developed and otherwise disadvantaged countries, as exemplified, e.g., by the International Development Association, "soft windows" at international lending agencies, the spirit of Part IV of the General Agreement on Tariffs and Trade (GATT), paragraph 6(iv)(a) of the GATT Ministerial

Declaration of November, 1982, and the regime for island and land-locked developing countries within the United Nations system, notably the Conference on Trade and Development (UNCTAD).

The need for differential measures (and special assistance) has also been recognized in Chapter VII of the Annex to the Treaty establishing the Caribbean Community (CARICOM), to which Belize, and the preponderant majority of the Eastern Caribbean countries presently listed in section 3 of the Bill, belong or have the liberty of belonging, by virtue of Article 2 of the Treaty. Appropriately, Article 3 of the CARICOM Treaty designates Belize and those countries as "Less Developed Countries" (LDCs).

Differential measures for the CARICOM LDCs are especially justified by the fact that these countries are much more newly-independent than the other CBI countries. Each of them attained independence since 1973, the year the CARICOM Treaty was signed. In Belize's case, independence was attained as recently as September, 1981, making Belize one of the two newest independent countries in the area. As newly-independent states, the CARICOM LDCs have not had equality of time and of opportunity for economic development, unlike many of the world's countries which have been independent for over one century. Section 3 seeks to give these countries, a chance to catch-up, to attempt to grow-up industrially, to gain a head-start.

It should be noted that the average GNP of the countries is $136 million and that their trade with this country constitutes less than 1% of U.S. imports. Section 3 will therefore be in no way harmful to the U.S. economy.

Value-Added In Infant Industries

Section 3 will provide these lesser-developed countries the opportunity of establishing, for the very first time, in cases like Belize and Dominica, new industries which will enhance local value-added in the territories, provide training for work-forces, furnish employment for large urban populations and allow the countries to attempt to take-off. Above all, "infant" industries will be established, in these infant countries, consistently with the special provisions of Article XVIII of the GATT, which recognize that certain economies "are in the early stages of development," i.e. the countries are newly independent and, as the Ad Note to GATT Article XVIII provides, in some of them there is excessive reliance on primary production, as in Belize and Dominica.

Identifying The Countries

The most correct and appropriate method of designating the beneficiaries of section 3 should be "CARICOM LDCs." This would have the advantages, over the present "Eastern Caribbean" terminology, of:

-consistency with the established treaty framework of the regional integration system,
-predictability and objectivity of the underlying economic criteria, by which the countries can, if necessary, be automatically declassified and graduated from the benefits of section 3, if they later become "More Developed Countries," a category prescribed by the CARICOM Treaty,
-fairness, and
-geographic and political neutrality.

If it is still desired to include other countries which are not CARICOM LDCs, such countries can be mentioned by name.

If such an approach is not followed and the Eastern Caribbean terminology is retained, it is suggested that section 3 should be reworded "Belize and the Eastern Caribbean."

Substantial Transformation

It has been seen that the class of beneficiaries of section 3 is extremely small. Since the class is defined either in terms of a limited treaty and, by implication, by reference to the countries' recent independence, it is not possible that the class can be enlarged, with the potential for injury to U.S. interests.

Since for neither this reason nor any other, can there be injury to the United States, and since the substantive benefits are extremely limited, no harm can be done by affording the special rule of origin without the requirement of "substantial transformation" of general U.S. trade law. Certainly, any fear of the countries being used for "pass through" operations is unjustified. Therefore, it is recommended that, to satisfy section 3's special rule of origin, the product should be required to belong to a tariff classification different from that of its components. A partial, though rather complex, model can be found in the recent U.S.-Canada Free Trade Agreement.

CONCLUSION

Mr. Chairman, Members of the Subcommittee on Trade: I believe that what the original Caribbean Basin Economic Recovery Act and this new Bill seek to do are to avoid expansion of the international dole by encouraging and, where possible, assisting in the creation of the infrastructures necessary for multi-sectoral economies and by stabilizing and improving the framework for trade. We truly appreciate this exercise in the Hemispheric solidarity and hope that it will be massively expanded.

Thank you.

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March 25, 1988

Honorable Samuel M. Gibbons
Chairman
Trade Subcommittee on the House
Ways and Means Committee
United States House of Representatives
Washington, D.C. 20515

FEDERAL EXPRESS

Dear Representative Gibbons:

I want to thank you for extending the opportunity for me to testify before the Trade Subcommittee on H.R. 3101. Unfortunately, due to a prior commitment, which was in place when I was elected Chairman of the Caribbean Basin Business Promotion Council on March 11, I will be unable to testify on Monday, March 28. I had hoped the hearings would continue into the next day at which time I was prepared to testify; however, I look forward to providing more extensive testimony at a future date. In the interim and for the record, I am pleased to submit comments concerning the role of the recently formed Caribbean Basin Business Promotion Council and its potential impact on the Caribbean Basin Initiative.

The Caribbean Basin Business Promotion Council held its inaugural meeting on March 11, 1988. As Chairman of the Council, I also wish to commend you for your continued statesmanship in leading Congressional efforts to enhance CBI. I agreed to serve as Council Chairman because of my conviction that only private sector growth can create and sustain economic progress, and thereby contribute to social and political stability in the Caribbean Basin. I believe you share this conviction as do the Council members.

The Council consists of 28 senior executives from various private sector enterprises such as Westinghouse Electric, Sears and Roebuck, Beecham Products, and many other firms with extensive experience in doing business in the Caribbean Basin. In addition, eight senior government officials serve on the Council including Alexander Good, the Director General of the U.S. and Foreign Commercial Service who also serves as CBI Ombudsman.

The Council was created to advise the Secretary of Commerce and the CBI Task Force on matters pertinent to implementation of the Caribbean Basin Initiative. The Council will give particular attention to promoting private sector investment and trade in the region and recommending policy changes that will enhance the Caribbean Basin investment climate.

The Council's initial activities will be to promote the CBI program and disseminate CBI business referrals within their own locales and respective industry sectors. Members will also be appointed as "country and industry sector advisors to the Council." Specifically, the Council members were tasked with the following initial first action responsibilities:

- organize a gathering of key business executives in their local community to discuss CBI business opportunities;
- meet with local executive committees of leading business organizations to mobilize interest and involvement in CBI;
- brief local business media on Council meetings and activities; and
- disseminate business referrals for specific investment opportunities received from CBI embassy teams.

These initial private sector-led promotional efforts are needed to educate the private sector about the benefits of CBI. Although there have been scores of CBI-related seminars given in the past, I believe it is important to have objective, private-sector led discussions concerning the concrete business opportunities available.

Also, in order to assist the Council in identifying U.S. business partners for specific CBI investment opportunities, the U.S. and Foreign Commercial Service has engaged the assistance of all the Caribbean-based Ambassadors and Chiefs of Missions. They have been requested to refer investment opportunities such as joint ventures, partnerships, sub-contracting, licensing, and technology transfer leads to the Council for dissemination within the members' business network.

Although the embassies have been referring such leads to Washington agencies on an ongoing basis, the creation of the Council has now provided an additional private sector avenue for direct matching of U.S. and Caribbean business interests. Since CBI began, many U.S. government agencies have supported the program and their dedication to CBI has been instrumental in making CBI a cornerstone of American policy in the region. With increased interest in private sector-led development throughout the democratic world, the role of the Council is certainly timely and can be a catalyst in expanding the success of the CBI program.

As you know, the movement toward privatization of state-owned enterprises in several areas of the Caribbean has captured the attention of many U.S. firms. One of the best mechanisms for augmenting private sector growth in the Caribbean region is for the Council to develop close ties with counterparts in the Caribbean private sector. With the Council's extensive expertise and networth of contacts, both in the United States and in the Caribbean, we feel confident of contributing to continued economic growth through attraction of U.S. investments and increased trade with the region.

In order that you have a complete record of the proceedings of the Council, I have enclosed, for submission into the record, a reporting cable summarizing the Council's March 11 meeting. A complete verbatim transcript is also available if required by the committee. We will provide the same type of report for each quarterly Council meeting.

Although I am unable to personally convey my thoughts with respect to H.R. 3101, I look forward to working with your Committee, through the Secretary of Commerce, in developing measures to enhance the Caribbean Basin Initiative. Please let me know if I can be of additional assistance.

With all best regards, I am most

Sincerely yours,

Harvey C. Koch

Harvey C. Koch

[BY PERMISSION OF THE CHAIRMAN:]

STATEMENT OF JORGE H. ZORREGUIETA, CHAIRMAN, CENTRO AZUCARERO ARGENTINO (ARGENTINE SUGAR COUNCIL)

This presentantion, prepared by Mr. Jorge H. Zorreguieta -Chairman of the Centro Azucarero Argentino- (Argentine Sugar Council) expresses their opposition to Section 10 in H.R. 3101, The Caribbean Basin Economic Recovery Expansion Act of 1987. The Argentine Sugar Council represents sugar producers in the Argentine Republic.

Section 10, states that the CBI countries would have their sugar quotas restored to the 1983/84 levels. According to calculations, should said countries have their quotas restored to those levels, their totals would equal or exceed the entire import quota set by the Government of the United States for 1987. At that time the quota was set at 1,001,430 short tons and subsequently reduced to 750,000 short tons for calendar year 1988.

Non CBI exporters, among them Argentina, which export sugar to the United States under the quota system which have also been traditional suppliers, will find themselves completely displaced from said market in 1988 and succeeding years.

We wish to point out that even if the quota for non CBI countries do not suffer any variation, the present initiative would substantially increase the relative level of imports from the CBI countries establishing a preferential treatment for them.

We wish to express our grave concern for the harm that this type of action will have on sugar production in Argentina coupled to the harm already inflicted to Argentine sugar exports by the Sugar Program of the United States.

The United States of America must respect its obligations under the General Agreement for Tariffs and Trade (GATT) as well as the waiver obtained by the U.S. for the CBI program. Should the U.S. sugar quota be distributed in a discriminative manner such obligations would be violated.

I. SOCIO-ECONOMIC ASPECTS OF ARGENTINE SUGAR PRODUCTION.

Sugar production greatly influences Argentina's overall production. The Argentine sugar industry, located in the northwestern region of the country (Salta, Jujuy and Tucuman) is the backbone to that area's socio-economic structure. Sugar is produced in 25 plants with 15,000 sugar cane producers and roughly 100,000 workers influencing over 600,000 people (25% of the population). In the Province of Tucuman, sugar production alone amounts to 60% of the province's gross product.

There are no employment alternatives for the area's labor force and sugar production in the area involves services through out these regional economies (i.e. workshops, repair services, spare parts, etc.)

Sugar production is a strategic industry due to its geographical location which is an important economic center with urban areas.

The installed industrial capacity destined to produce sugar cane amounts to approximately 1,500 millions of dollars. The agricultural investment and work infrastructure used for watering and other realted services, directly or indirectly related to this activity should also be taken into account.

2. IMPACT OF INTERNATIONAL PRICES

Argentina's output ranged from 1,5 to 1,6 million tons and it exported 500/600,000 tons to the world market.

Basically, it is considered that local consumption in addition to a legal reserve amounts to 1,000.000 tons of sugar. In 1984 the national sugar share amounted to 1,5 million tons and the mandatory exporting quota was fixed in half a million tons.

In 1985, on account of the critical condition of the international market, the Argentine Government decided to decrease the annual output from 1,5 million to 1,1 million tons; and the export share was decreased from 500,000 to 100,000 tons. The output decreased 28% and exports decreased 80%.

In fact, the output was adjusted to 1 million tons for the local con sumption plus 100,000 tons for exports, that is to say, the export share to the United States at the time the decision was made.

The Northwestern Argentine Provinces had to undergo a severe economic situation: 5,5 million tons of sugar cane remained uncut, and unemployment was critical in the industry and in the provinces engaged in sugar production. This was a parallel to the difficult social condition in these provinces, and it should be pointed out that mainly Tucuman was the province that suffered most the effects of terrorism and guerrilla activity during the period 1973/77.

This Governmental decision should be taken into account within the framework of a return to democracy, together with the application of a strong economic stabilization program, which objective is to reduce the devastating inflation and to comply with its commitments to the foreign debt. Annual service on the debt is in the order of 5,000 million dollars representing approximately 7% of the Gross National Product. All these facts should be taken into account in the midst of a significant fall in the international prices for products of the primary sector, which constitute our country's principal source of foreign currency. These circumstances make it impossible for Argentina to grant any type of subsidy which might solve the problem.

Later on the Government fixed an output quota of 1,050,000 tons for 1986: again the export share was of 100,000 tons and in 1987 the out put quota would be of 970,000 and 50,000 tons its export share.

All of this translates into a tremendous sacrifice for the sugar production of Argentina, which is the outcome of two fundamental facts: first, sugar exports to the United States have been successively reduced which in turn was due to the fact that the U.S. had reduced its import share; second because of the extremely low international market prices, which despite a recovery of 7 dollar cents per pound, are none the less far from rewarding the production costs of the most efficient countries.

3. EXPORTS TO THE UNITED STATES OF AMERICA.

It is obvious that sugar exports to the United States of America are highly relevant to the economy of a very important region in Argentina.

As a result of the U.S. sugar policy, which required import shares since May 1982 urging the protection of the local sweetners output, the U.S. sugar imports decreased from an average of 5 million short tons -raw value- for the years 1977/81, to 1 million short tons -raw value- for 1987.

Argentina's share in the American market is 4,3% and therefore its imports decreased from an average of 280,000 tons, from 1977 to 1981 to successively lower values, up to 39,000 short tons raw value for 1987.

SUGAR IMPORTS BY THE U.S.
SHORT TONS - RAW VALUE

Country	YEARS 1977	1978	1979	1980	1981	Average 1977/81
Argentina	266.968	271,019	234,820	197,172	443,950	
Total	6,138,048	4,682,900	5,026,746	4,494,688	5,025,283	5,075,087

SINCE MAY 1982 THE QUOTA SYSTEM WAS IMPOSED

COUNTRY	1982/83 (1,10,82 30,9,83)	1983/84 (1,10,83 30,9,84)	1984/85 (1,10,84 30,11,85)	1985/86 (1,12,85 31,12,86)	1987 (1,1,87 31,12,87)
Argentina	120,400	130,805	109,220	73,788	39,130
	2,800,000	3,042,000	2,552,000	1,848,054	1,001,430

The forgoing information was supplied by the U.S. Department of Agriculture (USDA).

It is easy to understand the negative effect suffered by our country due to the U.S. decrease in imports. Based on USDA's source, Argentina's formerly income on sugar exports to this country were in the area of 210 million dollars in 1981, it decreased to 41,3 million dollars in 1983 and to an estimated 14,2 million dollars for 1987.

4. GENERAL AGREEMENT ON TARIFFS AND TRADE (GATT).

We must clearly establish that the responsibilities assumed by the U.S. as a GATT member determine clear limitations to the reallocation of sugar import quotas.

Article XIII of the General Agrement prohibits discriminatory application of import quotas with respect to any product.

It must be borne in mind that Section 2 of this article establishes that: the country which is restricting its imports must aim at a distribution of trade in each product, approaching as closely as possible the shares which the various contracting parties (GATT signatories) might be expected to obtain in the absence of such restrictions. That is, that any means chosen to modify the proportion established and accepted by the supplying countries within the quotas system established for sugar imports by the U.S., would clearly infringe the regulations of Article XIII of the GATT while this country is a signatory.

Section 10 in H.R. 3101 by restoring as from 1988 sugar imports quota for the CBI beneficiaries at the levels existing when the CBI program came into effect, sets a substantial modification to the proportions in which the quota is distributed in favor of some countries, and considering the present volume of imports within the quota system of the United States of America, it enormously reduces, probably to zero exports from other quota countries which do not belong to the benefitted area.

Moreover, the waiver guranteed by the Contracting Parties of the GATT to the U.S. by decision of February 15, 1985 to permit the application of the CBERA within the terms of the General Agreement, is clear when considering that the CBRA will not harm the interest of the other contracting parties and takes into consideration the assurances that the Governemnt of the U.S. does not envisage any action, in pursuance of the Act, which might cause adverse effect on the sugar trade of contracting parties who are not beneficiary countries.

Finally on such Decision, on February 15, 1985 section 4(i) expresses that the Government of the United States will assure that this waiver will not be used to contravene the principle of the non-discriminatory allocation of sugar quotas.

It is then clear that, as established in section 4(ii) and 4(iii) of the Decision, any distribution of the sugar import quotas which modifies the present proportions, must be consulted by the Government of the United States with any contracting party -in this case the Argentine Republic- which is considered to be adversely affected by any action such as is described above.

There is no doubt that the Congress of the U.S. will consider this issue in light of the economic, social and political implications affecting Argentina and that it shall also take into consideration the obligations legally undertaken by the U.S. under GATT.

Finally, it should also be borne in mind that the United States of America have always defended liberalization and expansion of world-wide trade. The proposal which the U.S. has presented at the Uruguay Round clearly demonstrate this fact. Therefore, it would not be consistent with such a proposal if the U.S. were to distribute its sugar quota in a discriminatory way; such behavior would tarnish the image this country wants to present in liberalizing agricultural trade.

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STATEMENT OF

FLORIDA CITRUS MUTUAL

This statement is submitted on behalf of Florida Citrus Mutual, Lakeland, Florida ("FCM"), pursuant to the invitation for comments of the Subcommittee on Trade, Committee on Ways and Means (Subcommittee Release No. 13, Nov. 24, 1987), concerning legislation to extend and expand the Caribbean Basin Economic Recovery Act of 1983. FCM is a voluntary cooperative association whose membership consists of more than 12,136 growers of citrus fruit for processing into processed citrus products. FCM's members account for the vast majority of citrus fruit grown for processing in the United States.

FCM takes this opportunity to reaffirm its position on the CBI program. First, FCM believes that the proposed extension of the CBI duty preferences, which are not scheduled to expire for eight years (September 30, 1995), is premature at this time. Since the program has only been in effect for four years, there has been insufficient time to assess both its beneficial and adverse consequences. Improvements can be easily enacted, as proposed, without extending the program into the next century.

Second, FCM cautions that the reauthorization in H.R. 3101 should not depart from the statutory and administrative rules of origin which are essential to both the developmental goals of the program and the protection of import sensitive U.S. industries. The language of the CBERA provides clear rules of origin for purposes of determining the eligibility of articles entered duty-free into the customs territory of the United States under the CBI program. In enacting that legislation, Congress recognized both the potential for development of indigenous Caribbean citrus industry and the potential of the program for abuse, through transshipment of non-Caribbean product to take unfair advantage of this unilateral duty benefit, to the detriment of the import sensitive U.S. industry. FCM supported the enactment of the CBERA, and advocated the inclusion of the strict origin rules which were adopted by Congress and are in effect today. World citrus market conditions since that time have witnessed heightened competition, and the U.S. industry has been subjected to increased import levels from numerous sources. Therefore, it is extremely important that any re-authorization of this program not alter or liberalize the rules of origin as they pertain to processed agricultural commodities entering the United States from CBI beneficiary countries.

The CBERA Rules of Origin

The Caribbean Basin Economic Recovery Act of 1983, 19 USC §2701 et seq., provides that duty-free treatment will be accorded only to articles which are the "growth, product, or manufacture of a beneficiary country". In addition "... no article or material of a beneficiary country shall be eligible for such treatment by virtue of having merely undergone (A) simple combining or packaging operations, or (B) mere dilution with water or mere dilution with another substance that does not materially alter the characteristics of the article." 19 U.S.C. §2703(a)(2)(A) and (B). These provisions were specifically included for the purpose of assuring that the CBI beneficiary countries were not merely used as a conduit for non-Caribbean products, such orange juice, through reconstitution (adding water), blending, and/or packaging in the Caribbean. As noted by the Committee

> The object of these provisions is to prevent pass-through operations in which the work performed is of little economic benefit to the Caribbean and constitutes avoidance of U.S. duties. Examples of activities which the Customs Service should consider as insufficient include .... merely diluting with water, such as reconstituting orange juice concentrate ... The provisions would

> not preclude meaningful assembly operations utilizing foreign components, provided the assembly is of significance to the local economy, meets the 35 percent local content rule, and results in a new and different article.

H. Rep. No. 98-266, 98th Cong., 1st sess. 12 (1983) citrus juice processing was recognized explicitly as a potential area for abuse under this law, since most Caribbean countries have some local citrus production, and because the geographical proximity of two large non-Caribbean processed citrus producers, Brazil and Mexico, made this new duty-free area a tempting transfer point for a commodity normally subject to payment of duties upon entry into the United States.

Pursuant to this statutory directive, the U.S. Customs Service promulgated regulations designed to prevent pass-through citrus processing from obtaining the benefits which are designed to spur local citrus growth, both in fruit production and in labor and capital intensive juice extraction and concentration. Customs regulations prohibit CBI treatment for products which are subjected only to limited processing, and provide that:

> ... simple combining or packaging operations and mere dilution include, but are not limited to, the following processes:
>
> * * * *
>
> (F) Reconstituting orange juice by adding water to orange juice concentrate;
>
> * * * *
>
> The fact that an article or material has undergone more than a simple combining or packaging operation or mere dilution is not necessarily dispositive of the question of whether that processing constitutes a substantial transformation for purposes of determining the country of origin or the article or material.

19 C.F.R. §10.195(a)(2)(i)(F). These regulations have been interpreted by Customs to prevent the attribution of CBI status to foreign origin citrus juice which has been either reconstituted in a CBI beneficiary country, or merely blended with CBI-origin citrus juice.

This approach by Customs is clearly in accord with both the goals of the CBERA, and with the general rules of origin and substantial transformation as applied to processed citrus products in other contexts. For example, the U.S. Court of International Trade has upheld Customs rulings in this area, in holding that the reconstitution of orange juice from a concentrated product -- the form in which most or all orange juice is exported from the world's largest producing countries -- does not constitute a substantial transformation for country of origin marking purposes. National Juice Products Association v. United States, 628 F. Supp. 978 (Ct. Int'l Trade, 1986). Thus, Customs requires that all retail containers of processed juice sold in the United States which contain any foreign origin juice must be marked to indicate such origin, even if the juice was derived in part from an imported concentrate which was reconstituted after importation. C.S.D. 85-47, 19 Cust. Bull. 39, at 21 (Sept. 25, 1985), and T.D. 86-120, 51 Fed. Reg. 23,045 (June 25, 1986).

Congress and the Administration have also consistently recognized the potential for manipulation in citrus product trade, especially in reduced-tariff or duty-free treatment programs:

(1) In legislation authorizing the U.S.-Israel Free Trade Agreement, the Congress adopted the same origin eligibility language as that used in the CBERA, as set forth above. Pub. L. No. 98-573, Sec. 402(a)(2)(A) and (B); 19 U.S.C. §2112 note. This Committee stated that "...[t]he object of these provisions is to prevent pass through operations in which the work performed is of little economic benefit to Israel and constitutes avoidance of U.S. duties. Examples of activities that the U.S. Customs Service should consider as insufficient include ...merely diluting with water, such as reconstituting orange juice concentrate..." H. Rep. No. 98-1092, 98th Cong., 2d sess. 11 (1984).

(2) The rules of origin included in the recently negotiated U.S.-Canada Free Trade Agreement incorporate concepts identical to those expressed in the CBI and U.S.-Israel programs:

> A good shall not be considered to originate in the territory of a Party [i.e., U.S. or Canada] pursuant to paragraph 2 merely by virtue of having undergone:
>
> (a) Simple packaging or, except as expressly provided by the rules of Annex 301.2, combining operations;
>
> (b) mere dilution with water or another substance that does not materially alter the characteristics of the good; or
>
> (c) any process or work in respect of which it is established, or in respect of which the facts as ascertained clearly justify the presumption, that the sole object was to circumvent the provisions of this chapter.

Canada-United States Free Trade Agreement, Final Text, December 9, 1987, Art. 301, para. 3. Again, this restriction was in tacit acknowledgment of the potential for diversion which is presented by the existence of duty-free treatment.

The provisions of H.R. 3101, to amend and expand the CBI program, do not change the basic origin criteria (except with respect to Eastern Caribbean country products which incorporate U.S. content). FCM agrees that the primary origin rules should remain in effect as originally enacted, and that administrative enforcement of these rules should remain unchanged (except as regards the limited exception included in the bill). We request that the Committee specifically endorse the existing rules as they affect citrus products.[1]

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[1] In this regard, we note that Representative Pickle, a co-sponsor of H.R. 3101, commented before the Subcommittee on December 14, 1987, that the present substantial transformation rules of the law would remain unchanged and will prevent the establishment of pass-through operations in Eastern Caribbean states.

The U.S. Citrus Industry is Import Sensitive

FCM emphasizes that it does not oppose CBI treatment for citrus products, despite the findings of administrative agencies in recent years under the U.S. trade laws that foreign subsidy and pricing practices pose a threat of material injury to the U.S. industry. It is because of this sensitivity that we urge both a delay in extending the effective dates of duty-free treatment, and continued vigilance to guarantee the integrity and productivity of the program. Available data suggest the use of the duty preference for citrus by CBI beneficiaries increased substantially during the time the program has been in effect. See U.S. ITC, Annual Report on the Impact of the Caribbean Basin Economic Recovery Act on U.S. Industries and Consumers, Pub. No. 2024, at 10 (Sept. 1987). Substantial local citrus production capacity exists in Costa Rica, Honduras, Belize, Dominica, and the Dominican Republic, which has and will benefit from the developmental incentives of the program.

This favorable movement, however, must be measured against the backdrop of recent U.S. citrus industry and market developments. In 1983, the U.S. International Trade Commission found that subsidized imports of frozen concentrated orange juice from Brazil threatened to cause material injury to the domestic industry, and a countervailing duty suspension agreement remains in effect with the Government of Brazil. Frozen Concentrated Orange Juice from Brazil, ITC Inv. No. 701-TA-104 (Final) (1983). In 1984, the Commission determined that the revocation of that agreement would also threaten the industry with material injury. FCOJ from Brazil, ITC Inv. No. 751-TA-10 (1984). In 1987, the Commission determined that less than fair value pricing activity by Brazilian exporters of FCOJ again threatened the U.S. industry with material injury, and an antidumping order is now in effect. FCOJ from Brazil, ITC Inv. No. 731-TA-326 (Final) (1987). Certain citrus products have been deemed so import sensitive that they were among only seven articles imported from Israel, which were excluded from coverage of the U.S.-Israel Free Trade Agreement, pending subsequent re-evaluation of the Agreement. Both the U.S.-Israel Agreement legislation and the CBERA have included concentrated citrus juices under provisions to afford U.S. industries trade relief on an expedited basis, if duty free imports under those programs cause injury. 19 U.S.C. §2112 note (e)(6); Pub. L. No. 98-573. sec. 404(a) and (e)(6); 19 U.S.C. §2703(f)(5)(F).

These findings have been justified especially in light of a number of unavoidable, natural maladies which have afflicted the citrus industry since enactment of the CBERA in 1983. The industry suffered devastating back-to-back freezes in late 1983 and early 1985, seriously damaging or destroying large areas of citrus acreage in Florida and requiring massive recovery and rehabilitative expenditures. In addition, the discovery of citrus canker in Florida in 1985 led to a decrease in available replacement nursery stock, again raising the cost of recovery. The availability of adequate supplies of citrus juice for the U.S. market has never been compromised. Alternative world producers, particularly in Brazil, have easily met volume demand when Florida supplies were affected. However, recovery efforts by U.S. growers have always relied in large part upon increased returns following the events which resulted in the loss; importation of large volumes of citrus juice free of duty would undoubtedly prevent U.S. growers from realizing the increase in returns necessary to meet those costs.

The U.S. industry has taken major strides toward resuming the productivity and yields seen prior to the recent freeze and canker problems. The success of these efforts rests in large part on the careful administration of special tariff programs, such as the CBERA, in a fashion which prevents abuses and circumvention. FCM strongly supports the existing origin rules of that legislation and does not oppose the eligibility rules of H.R. 3101 in their present form. However, we do oppose the unnecessary twelve-year extension of the program, after only four years, because it fails to allow adequate time to evaluate its impact on Caribbean states and U.S. industries. It is also requested that the renewal legislation and the Committee's report thereon reaffirm the importance, to both the Caribbean beneficiaries and the U.S. industry, of preventing pass-through and non-substantial activities through continued enforcement of strict origin rules for processed citrus products.

Respectfully submitted,

FLORIDA CITRUS MUTUAL

Bobby F. McKown
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Executive Vice President

BARNES, RICHARDSON & COLBURN
James H. Lundquist
Matthew T. McGrath
Counsel

December 30, 1987

Statement of

The Honorable Geo. W. Crockett, Jr.

Chairman

Subcommittee on Western Hemisphere Affairs

Committee on Foreign Affairs

before the Subcommittee on Trade

Committee on Ways and Means

December 14, 1987

Mr. Chairman and Members of the Subcommittee, thank you for the opportunity to testify on H.R. 3101, the Caribbean Basin Economic Recovery Expansion Act of 1987, of which I have the honor to be a co-sponsor.

My testimony is based on a congressional study mission and symposium on the Caribbean Basin Initiative, held in Barbados last September. The symposium was sponsored by the Subcommittee on Western Hemisphere Affairs, which I chair, and the Subcommittee on International Economic Policy and Trade, chaired by my colleague, Representative Don Bonker. I am submitting with my testimony a copy of the report of that study mission.

As you know, Mr. Chairman, the CBI has fallen far short of the expectations that were held for it at the time of its consideration and enactment. Yet the reasons for these shortcomings have not been entirely clear. We undertook our study mission in order to consult with the people of the Caribbean about how they see the CBI -- its successes, its failures, and its effect on their lives and their livelihoods.

In our mission, we tried to broaden the scope of the consultation by including not only the usual government and private-sector leaders, but also representatives of development organizations, academia, trade unions, churches, women's groups, small-business and small-farmers' organizations, and opposition political parties. Based on two days of intensive meetings with these representatives of the broad scope of Caribbean society, we hoped to gain a better understanding of how the CBI could be enhanced and combined with other, complementary development measures for the region in order more effectively to stimulate broad-based development for all the people of the Caribbean.

It is this direct testimony and input from the Caribbean that I want to convey to you in this testimony. While our consultations spanned the gamut of Caribbean development issues, I will focus my testimony on the recommendations that are directed toward the improvement of the trade provisions of the CBI, and therefore appropriately addressed to this Committee. I will focus my remarks on the insular Caribbean, which I believe must be treated separately from Central America for purposes of trade policy.

In thinking about these issues, it is important to bear in mind why this region is important to us. The Caribbean is an area in which the United States has vital national security and foreign policy interests. The maintenance of stable, democratic, friendly regimes there must be a fundamental objective of United States policy. It follows that the small, vulnerable, dependent economies of the region must be able to benefit from the special treatment that is required for them to be viable. This special treatment must be granted not in exchange for political or economic orthodoxy or foreign policy subservience, but because Caribbean prosperity is in our mutual interest. From this perspective, the provisions of H.R. 3101 do not constitute foreign giveaways. On the contrary, they rest squarely on this country's enlightened national interest.

Our goal, then, in seeking to improve and build on the CBI, should be to expand on our efforts to create a special relationship with the insular Caribbean for our mutual benefit. To that end, we should seek more effective ways to foster economic development in the region, to encourage greater self-sufficiency in these island nations, and to support responsive, democratic government. In doing so, we should remember one central economic fact: no combination of Caribbean imports can have a significant impact on U.S. jobs and trade. The argument for a special relationship rests, therefore, on two propositions that I hope will be self-evident to this Subcommittee: first, the potential economic costs of building the special relationship are low; second, the potential security costs of not doing so are high.

H.R. 3101 would contribute significantly to building such a relationship. The bill--and the study mission that preceded it-- was viewed as a significant step forward by all sectors represented at our symposium. The centerpiece of the bill -- the extension of CBI trade benefits for an additional 12 years -- was particularly praised as providing some of the increased predictability that the people of the region see as a key to the success of the CBI. Other provisions that elicited favorable comment from our participants include the special rule of origin for products from the Eastern Caribbean, limited duty-free treatment for articles that are not eligible for benefits under current law, the separate injury test for CBI beneficiary countries, restoration of Caribbean sugar quotas, and the increased tourist exemption.

However, our Caribbean colleagues did have some recommendations for improvement in the bill, and for further measures in the trade area, which we promised to pass on to this Committee. I will present them in three broad categories: first, improved market access; second, information and consultation; and third, other concerns.

Laudable as H.R. 3101 is in its efforts to improve access to the U.S. market for Caribbean goods, it does not go far enough. As stated in our report, we should move toward phasing out all remaining restrictions on Caribbean products coming into the United States. That, I realize, is more easily said than done. But the arguments that I have advanced above lead me to conclude that the Caribbean should generally be exempted from import restrictions that are principally aimed at major competitive producers.

In this spirit, Mr. Chairman, I wish to commend to your attention the recommendations of Manchester Associates, Ltd. Among Manchester Associates' recommendations for improvements in H.R. 3101 that dovetail with the views expressed at our symposium are the following.

First, duty-free and quota-free entry should be allowed not only for products produced in the Caribbean from U.S.-made components, as provided in the bill, but also for products made exclusively from Caribbean materials or from any combination of U.S. and Caribbean components. Such entry should also be allowed for products made principally from U.S. and/or Caribbean materials but which also contain components from other sources that are not available from American or Caribbean suppliers.

Second, the provision of the bill that permits duty-free imports of exempted (i.e., dutiable) products to increase by an aggregate amount of five percent per year should be retained, but without the three percent limitation for any individual country.

The second area where improvements are necessary is in the area of consultation and information. Many people in the Caribbean feel that the United States failed to consult adequately with the region in elaborating the CBI, and that inadequate consultation remains a problem in the implementation of the program. Our Caribbean colleagues feel that the President should be required to consult with them before exercising his authority to suspend CBI benefits. They also feel that they should be consulted on changes in the regulations that would affect them.

Our symposium participants pointed out that there does not exist, either in the United States or in the Caribbean, a focal point for such consultations and for sending and receiving information on the CBI. Caribbean exporters feel that they are frequently surprised by actions of the Customs Service or the Department of Agriculture that they are unable to anticipate, and they do not know where to go to seek interpretations or register objections. For their part, the Caribbean nations have not designated an entity to serve as the primary mechanism for consultation on their behalf; it was suggested that the CARICOM Secretariat might be well-suited for this purpose.

The United States should consider designating a central office to coordinate all CBI-related activities, to serve as a central location for the dissemination of all pertinent regulations, to be an avenue of recourse for Caribbean exporters seeking redress from CBI-related actions by the United States, and in general to serve as the U.S. end of a joint consultative mechanism on the CBI. We should also encourage the CBI beneficiary countries to designate a comparable entity, which we should then promptly recognize as our principal interlocutor.

Such a joint consultative mechanism could help remedy the related problem of informing Caribbean businesses of the applicable laws and regulations that affect their ability to export to the U.S. market under the CBI. We heard testimony that individual exporters have trouble finding out what the regulations are and how those regulations apply to them. The agency designated as the lead agency for CBI implementation should be required to ensure that all necessary information is published and effectively made available at the level of the individual Caribbean firm in time to educate that firm's investment decisions. This might entail, for example, setting up workshops in the Caribbean.

Finally, Mr. Chairman, we heard other concerns expressed in the Caribbean that go far beyond the scope of H.R. 3101. I wish to convey them to you, not necessarily for immediate action with respect to this bill, but rather for consideration over the longer term.

First, we found a great deal of concern over the bilateral orientation of the CBI. As you know, the Caribbean Basin Economic Recovery Act essentially authorizes the President to enter into a series of bilateral trade agreements with individual Caribbean Basin countries, based on a series of criteria having to do basically with the behavior of each country. There is something to be said for that approach. But it is perceived in the Caribbean as maximizing U.S. leverage over these tiny countries, as enabling us to play them off against one another, and as mitigating against the promotion of the regionalism that is widely viewed as necessary for Caribbean viability and growth. In accordance with the wishes of many of our Caribbean colleagues, I would urge this Subcommittee to consider the possibility of reformulating the CBI as an instrument by which we deal with the Caribbean more as a region, and less as a set of isolated micro- and mini-states.

Second, some participants in our symposium expressed concern over labor standards, land scarcity and food self-sufficiency, environmental degradation, health and safety standards, and what they see as the tendency of the CBI to benefit large, foreign-owned exporting firms at the expense of small- and medium-sized, indigenous manufacturing and agricultural enterprises. These might seem like matters of national policy for the individual governments. But, we were told, the governments feel that they must do whatever is necessary to attract foreign investment, no matter what negative effects that investment might have within their own societies. The question arises, therefore, whether it would be possible to take account of these concerns in U.S. trade policy, by giving preference to imports produced in ways that meet certain social criteria worked out in consultation with the governments and people of the Caribbean.

Third, it will not be news to this Subcommittee that commodity price stability is a matter of intense concern in the Caribbean. There was frequent reference in our symposium to price stabilization schemes under the Lome Convention, from which the Caribbean benefits in its trade with Europe. I fully recognize that this is a matter with which this Subcommittee has dealt over many years, and that U.S. policy tends not to look favorably on price stabilization arrangements. But we must recognize that so long as the CBI is based on an export-led growth model, it will require as a price of benefitting from its provisions, that these already vulnerable islands act to increase, rather than decrease, their vulnerability to commodity price swings. If some degree of stability and predictability cannot be achieved, then the CBI is surely doomed to fail, and the Caribbean economies will move to less free market-oriented forms of economic organization and relations. I believe that the price stability problem deserves our further attention, in cooperation with our Caribbean neighbors.

Mr. Chairman, I appreciate the opportunity to have these views, and the report of our symposium, incorporated into the record of these hearings.

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[THE REPORT OF THE SYMPOSIUM IS AVAILABLE FROM THE GOVERNMENT PRINTING OFFICE UNDER THE TITLE, "THE CARIBBEAN BASIN INITIATIVE: CARIBBEAN VIEWS," REPORT OF A STUDY MISSION TO BARBADOS, SEPTEMBER 18-19, 1987, TO THE COMMITTEE ON FOREIGN AFFAIRS, U.S. HOUSE OF REPRESENTATIVES.]

Statement on Behalf of
Inner Secrets, Inc. of Hoboken, New Jersey,
in Support of H.R. 3101,
The Caribbean Basic Economic Recovery Expansion Act of 1987

This statement is submitted on behalf of Inner Secrets, Inc., of Hoboken, New Jersey, in support of H.R. 3101, the Caribbean Basic Economic Recovery Expansion Act of 1987.

Inner Secrets is a leading manufacturer of brassieres and girdles. Inner Secrets has a manufacturing/assembly plant located on the island of St. Lucia. This subsidiary, Belle Fashions, is currently the largest employer on the island of St. Lucia. Since the inception of this operation, Inner Secrets has undertaken several plant expansions, and is currently completing its latest plant expansion at its Belle Fashions facility.

H.R. 3101, as currently drafted, would expand the current duty-free treatment of exports from the Caribbean basin region which was originally provided by the Caribbean Basic Economic Recovery Act of 1983, or "CBI," as it is commonly referred. H.R. 3101 would incorporate certain recommendations made by Congress to improve the effectiveness of CBI. Inner Secrets is most interested in, and strongly supports, the provision of H.R. 3101 which would permit duty-free treatment, as well as quota-free treatment, for certain articles assembled from U.S. materials in the Caribbean basin countries. This is precisely the operation which Inner Secrets currently utilizes with its Belle Fashions facility. Inner Secrets ships U.S. materials from the United States to St. Lucia, where the U.S. materials are assembled into brassieres and girdles. If the United States was to provide duty- and quota-free treatment to such articles, it would enable Inner Secrets to expand its facility, which would benefit both United States suppliers, and workers on the island of St. Lucia. Of course, H.R. 3101 would not only benefit Inner Secrets, but other companies which could further utilize the resources in the Caribbean region.

Inner Secrets strongly believes that the elements of H.R. 3101 would improve the effectiveness of the CBI program and build greater confidence in U.S. industry in that region. It would definitely create greater business certainty, and also provide a long-term investment climate which would lead to economic prosperity in that region. It also follows that there would be greater political stability in the region, which obviously is extremely significant to the interests of the United States.

On behalf of Inner Secrets, we are pleased to submit the above comments in support of H.R. 3101. If it is so desired by the Subcommittee on Trade, or the Committee on Ways and Means, representatives of Inner Secrets would be available for questions or additional comments.

Respectfully submitted,

Steven P. Ker

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December 30, 1987

HONORABLE TOM LEWIS
12TH DISTRICT OF FLORIDA
STATEMENT FOR THE RECORD
HOUSE COMMITTEE ON WAYS AND MEANS
SUBCOMMITTEE ON TRADE
SEPTEMBER 20, 1988

Mr. Chairman, I commend your efforts in focusing attention on the current success of the Caribbean Basin Initiative (CBI). Established in 1983, the CBI authorized certain unilateral and preferential trade and tax measures for Caribbean Basin countries and territories. These incentives were part of a comprehensive package designed to support local economic growth and development, as countries in this region nursed fragile democracies. While recognizing the importance of this region to the United States, and supporting the concept and goal of strengthening the economic and political environments of these countries, I am concerned about incentives which could affect American jobs and American communities.

Florida is the largest sugar producing State in the United States. Grown and processed in my district, sugar generates $1.5 billion in economic activity per year for Florida and accounts for approximately 43,000 jobs.

But sugar is more than jobs. Sugar is a way of life in the communities on the south shore of Lake Okeechobee. These communities would dry up without the sugar industry because the economic benefits of the sugar industry have created an economic base for Palm Beach County.

Legislating CBI sugar exports back to 1984 quota levels merely attempts to solve a small part of a larger economic problem by creating other problems. I do not dispute the need to help the nations of this region, but I do not feel it prudent or appropriate for the United States to grant preferential treatment to any nation at the expense of American jobs.

District No. 1—MEBA/NMU (AFL-CIO)

C.E. DeFRIES
President

SHANNON J. WALL
Executive Vice President

October 5, 1988

The Honorable Sam Gibbons
Chairman, Subcommittee on Trade
Committee on Ways & Means
U.S. House of Representatives
Washington, D.C. 20515

Dear Mr. Chairman:

District 1, Marine Engineers' Beneficial Association/National Maritime Union (MEBA/NMU) would like to comment on H.R. 3101, the Caribbean Basin Economic Recovery Act. During your September 15, 1988 hearing on the legislation, a representative of several foreign-flag cruise ship lines urged the subcommittee to support a tax deduction for persons attending business meetings, conventions and seminars held aboard foreign-flag cruise ships sailing to Caribbean nations. MEBA/NMU would like to state, for the record, that we unequivocally oppose restoring this tax advantage to foreign-flag shipping interests.

MEBA/NMU represents over 50,000 licensed and unlicensed seamen sailing on vessels operated by U.S.-flag ship operating companies. Over the past decade, these companies have dwindled in number and size. In December, 1977, the U.S. privately-owned fleet had 578 vessels; today's fleet has 382 vessels. The result is that seagoing jobs have been cut almost in half. Consequently, MEBA/NMU has a strong interest in any new industry that will increase the size of the U.S.-flag fleet and the number of available jobs for seamen. One of the brightest stars on the horizon is the American-based cruise ship industry.

Since the early 1980s, the American-based cruise ship industry has been growing dramatically. In 1986, the world cruise fleet consisted of 118 vessels with a passenger capacity of 80,000 berths. The U.S.-based cruise ship industry operates over 100 of these vessels and has a passenger capacity of 62,000. Only three of these vessels are registered under the U.S.-flag; the rest are foreign-flag vessels.

In 1980, under President Carter, the original deduction for conventions and seminars on cruise ships was repealed. That decision was based on questions surrounding the efficacy and equity of across-the-board deductions for people traveling on cruise ships. In his testimony, the representative from the foreign-flag lines bemoaned the loss, arguing that it had a "devastating" economic impact on his industry. To the contrary, the foreign-flag cruise lines are highly profitable. More importantly, these cruise lines are controlled foreign corporations and, as a result, income from their shipping operations has not been subject to U.S. corporate income taxation. Carnival Cruise Lines, for example, reportedly pays no U.S. corporate income taxes. (see attached excerpt from Carnival stock prospectus dated June 5, 1987.)

In fact, the American-based, foreign-flag cruise ship industry has been thriving since the repeal of the deduction in 1980 -- in some part, because it was simply quicker at the bell. However, their competitive edge was solidified because, unlike American lines, they pay their foreign crews low wages, can build their vessels abroad in low-cost shipyards and are allowed to have gambling casinos on-board their vessels. Again, they pay little or no U.S. corporate income taxes. They pay no state taxes. Their employees are not subject to U.S. withholding taxes. They do not pay local or state sales taxes, excise taxes, gambling taxes, or liquor taxes. Their vessels are not required to meet all U.S. Coast Guard safety standards. Public health inspections are not mandatory and they also won exemptions from fees for U.S. customs inspections.

Now, Carnival and other foreign lines come before you requesting another tax advantage disguised as a plea on behalf of Caribbean nations. Our initial reaction when hearing this request was that there certainly must be more "tax effective" methods of helping Caribbean countries. However, there are other reasons for denying this deduction -- reasons that go to economic growth in our country as well as to national security.

In 1982, Congress reinstated the tax deduction for convention travelers on U.S.-flag cruise ships. Congress hoped that by limiting the deduction to travel on U.S.-flag vessels, they might be able to compete more effectively with the foreign-flag lines. The provision's supporters on the Hill stated repeatedly that they saw the deduction as an opportunity to create jobs for U.S. seamen, encourage newbuildings in American shipyards and provide cargo for U.S.-flag commercial vessels.

The Department of Navy, like the deduction's congressional supporters, heralded the proposed tax benefit because by aiding U.S. passenger shipping, the Navy would have access to "auxilliary vessels for hospital ship conversion or troop carriage...." Consequently, any potential economic benefit to the U.S.-flag cruise industry from the reinstatement of the deduction was seen in terms of its positive effect on U.S. military sealift capability.

The impact of the deduction on the U.S.-flag cruise industry is growing. The maiden voyage of the U.S.-flag Monterey occurred just a few weeks ago. Additionally, plans are in the making to build two large luxury cruise vessels in a Tampa Bay yard. The Monterey and the vessels on the drawing board will rely heavily on convention business to be competitive with the foreign-flag cruise lines.

While we appreciate your interest in encouraging economic growth in the Caribbean nations, this particular suggestion is not a rational or equitable manner of achieving it. The only beneficiaries of this plan would be foreign-flag operators -- using American vacationers and American dollars -- at the expense of American jobs, American tax revenues and American security. The welfare of Caribbean nations is merely being used as an excuse to further enrich an already wealthy industry that puts little back into the U.S. economy compared to what it takes out.

Thank you very much for consideration of our views.

Sincerely,

C. E. DeFries

C.E. DeFries
President

Preliminary Prospectus Dated June 5, 1987

A registration statement relating to these securities has been filed with the Securities and Exchange Commission but has not yet become effective. Information contained herein is subject to completion or amendment. These securities may not be sold nor may offers to buy be accepted prior to the time the registration statement becomes effective. This prospectus shall not constitute an offer to sell or the solicitation of an offer to buy nor shall there be any sale of these securities in any State in which such offer, solicitation or sale would be unlawful prior to registration or qualification under the securities laws of any such State.

Prospectus

2,600,000 Shares

Carnival Cruise Lines, Inc.

Class A Common Stock

($.01 par value)

The Class A Common Stock offered hereby is being sold by the Company. In addition to the shares offered hereby, 21,000,000 shares of Class A Common Stock are being offered for sale in a concurrent offering in the United States and Canada. See "Underwriting." Prior to these offerings, there has been no public market for the Class A Common Stock. It is currently anticipated that the initial public offering price will be between $14.00 and $17.00 per share. See "Underwriting" for a discussion of factors to be considered in determining the initial public offering price.

Upon completion of this offering and the concurrent United States and Canadian offering (assuming no exercise of the over-allotment options) Mr. Ted Arison, certain members of his immediate family and a trust for the benefit of Mr. Arison's children and certain others will own approximately 82% of the outstanding capital stock and will have approximately 90% of the voting power of the Company. See "Principal Shareholders and Management."

The Company has two classes of Common Stock, the Class A Common Stock offered hereby and Class B Common Stock. With the exception of voting rights, the rights of holders are identical in all other respects. See "Description of Capital Stock." All of the Class B Common Stock is owned by Mr. Ted Arison.

Application has been made to list the Class A Common Stock on the American Stock Exchange under the symbol "CCL."

THESE SECURITIES HAVE NOT BEEN APPROVED OR DISAPPROVED BY THE SECURITIES AND EXCHANGE COMMISSION NOR HAS THE COMMISSION PASSED UPON THE ACCURACY OR ADEQUACY OF THIS PROSPECTUS. ANY REPRESENTATION TO THE CONTRARY IS A CRIMINAL OFFENSE.

	Price to Public	Underwriting Discount	Proceeds to Company(1)
Per Share	$	$	$
Total (2)	$	$	$

(1) Before deducting expenses payable by the Company estimated to be $

(2) The Company has granted to the Managers a 30-day option to purchase up to 390,000 additional shares at the Price to Public less the Underwriting Discount, to cover over-allotments, if any. If all such additional shares are purchased by the Managers, the total Price to Public, Underwriting Discount and Proceeds to Company will be increased by $, $ and $, respectively. See "Underwriting."

The Class A Common Stock is offered subject to receipt and acceptance by the Managers, to prior sale and the Managers' right to reject any order in whole or in part and to withdraw, cancel or modify the offer without notice. It is expected that delivery of the shares will be made against payment therefor at the offices of Salomon Brothers Inc, One New York Plaza, New York, New York or through the facilities of the Depository Trust Company, on or about , 1987.

Salomon Brothers International Limited

Bear, Stearns International Limited **E. F. Hutton & Company (London) Limited**

Morgan Stanley International

The date of this Prospectus is , 1987.

CERTAIN CONSIDERATIONS

No Prior Public Market

Prior to the Offerings, there has been no public market for the Class A Common Stock. The initial public offering price for the Class A Common Stock will be determined by negotiation between the Company and the Representatives of the Underwriters and Managers. See "Underwriting." Application has been made to have the Class A Common Stock listed on the American Stock Exchange under the symbol "CCL."

Taxation of the Company

The Company is not subject to United States corporate tax on its income from the operation of ships, and the Company does not expect such income to be subject to such tax in the future. This exemption from United States corporate income tax will remain in effect under current United States law for as long as the Company retains its status as a controlled foreign corporation ("CFC"). The Company currently qualifies as a CFC, and will continue to qualify as a CFC for as long as more than 50% of its voting power or equity value is controlled by the Principal Shareholders or by any group of one or more United States persons, each of whom owns, or is considered to own, at least 10% of the Company's voting power (a "Ten Percent Shareholder"). In connection with the restructuring of the Company, a second class of Common Stock, the Class B Common Stock, was created in order to preserve the control of the Company by Ted Arison and the Company's status as a CFC in the event Mr. Arison sells some of his shares of the Class A Common Stock. Mr. Arison has agreed not to transfer the Class B Common Stock voluntarily until at least 1997, except under certain conditions designed to ensure that the transfer will not affect the Company's CFC status. If the Company does not retain its status as a CFC, much of its income will become subject to taxation by the United States at higher than normal corporate tax rates. The Company's income from sources outside the United States generally will not be subject to United States tax. See "Taxation — Taxation of the Company."

Control by Principal Shareholder

After completion of the Offerings (assuming no exercise of the over-allotment options), Mr. Ted Arison will own approximately 68.2% of the Class A Common Stock and all outstanding shares of its Class B Common Stock and will have approximately 86.2% of the voting power of the Company. For as long as Mr. Ted Arison holds a majority of the shares of the Class B Common Stock, he will have the power to elect at least 75% of the directors and to substantially influence the Company's affairs and policies. For certain information relating to the relative rights of the Class A Common Stock and the Class B Common Stock, see "Description of Capital Stock." Mr. Ted Arison has entered into an agreement with the Company pursuant to which he has agreed not to voluntarily transfer his shares of Class B Common Stock until at least 1997, except under certain conditions designed to ensure that the transfer will not affect the Company's CFC status. In addition, until such date, Mr. Arison has agreed not to cause the Company to authorize or issue additional shares of Common Stock if, after giving effect to the issuance thereof and to related transactions, the Company would cease to be a CFC. See "Principal Shareholders and Management — Transfer Restrictions."

Effect on the Company of Tax Considerations of Principal Shareholders

Until November 30, 1987, the Principal Shareholders will not be required to include any of the Company's undistributed earnings in their taxable incomes as long as the Company reinvests those earnings in certain shipping assets, which the Company intends to do. After November 30, 1987, the Principal Shareholders will be required to include in their taxable incomes their pro rata shares of the Company's cruise ship earnings (as determined for tax purposes), whether or not those earnings are actually distributed. The Company intends to distribute dividends to all shareholders in at least such amounts as are necessary to enable the Principal Shareholders to pay the income taxes imposed on them with respect to those earnings. See "Dividend Policy." Shareholders, other than the Principal Shareholders and any Ten Percent Shareholder, will be taxed only on distributions actually received by them.

[BY PERMISSION OF THE CHAIRMAN:]

BEFORE THE UNITED STATES HOUSE OF REPRESENTATIVES
COMMITTEE ON WAYS AND MEANS
SUBCOMMITTEE ON TRADE

Statement of Harold Henriquez
Minister Plenipotentiary
For Netherlands-Antilles Affairs
On Behalf Of
The Netherlands-Antilles
December 14, 1987

I wish to express my thanks to the Chairman and to the Subcommittee for this opportunity to comment regarding certain aspects of H.R. 3101, the Caribbean Basin Economic Recovery Expansion Act of 1987, that are of particular interest to the Netherlands-Antilles.

There are three specific items that concern us with respect to the proposed legislation. These are:

(1) the status of beneficiary country petroleum product exports to the U.S. under the CBI;

(2) exchange of information requirements applicable to CBI beneficiary countries; and

(3) access under the CBI to educational and scholarship assistance.

Unlike other beneficiary countries, the Netherlands-Antilles is not in a position to take advantage of expanded opportunities that the proposed legislation may offer to those producing traditional regional products like sugar or textiles. Our most immediate and practicable opportunity for taking advantage of benefits available under the CBI program resides in petroleum and petroleum products.

Though H.R. 3101, section 213A(a)(4) includes "petroleum, or any product derived from petroleum" in the list of special category articles which may be accorded duty-free quota status if certain conditions are met, the limitations on the Netherlands-Antilles' ability to export petroleum and petroleum products to the U.S. entailed in this statutory scheme make it very doubtful that we will derive any practical benefits. For example, even if petroleum or a particular petroleum product from the Antilles is not produced in the U.S. in quantities sufficient to meet domestic demand, it still remains that directly competitive articles are produced here. The effect of this second condition is to bar duty-free quota status for our petroleum exports.

The two-tier system of individual and aggregate quotas set forth in section 213A would also pose problems. The provisions establishing the base quantity from which annual three percent growth in individual country subquotas is calculated do not take account of situations in which prior exclusion of a product from eligibility for duty-free treatment under the CBI has operated to fix the base quantity at an unreasonably low level. In other words, special category articles either not exported or exported to the U.S. in relatively small quantities because they were excluded from CBI duty-free status, and which may now qualify for this status under section 213A, will be locked into very small base quotas that reflect prior exclusion from the CBI more than they reflect a beneficiary's actual capacity or desire to export to the U.S.

There are also no provisions for establishing a reasonable base quota in situations where a beneficiary country has no history of exports to the U.S. of a particular article or good. In the case of the aggregate quota there is the problem that this provision could force reductions in other countries' duty-free quotas in order to make room for new entrants.

Taken together, the effect of these provisions is to deny the Netherlands-Antilles a reasonable opportunity to take advantage of benefits it might otherwise obtain from full CBI duty-free status for its petroleum and petroleum products. This is particularly unfortunate because these are, realistically, the principal, if not the only, products through which we can participate reasonably and fruitfully in the CBI.

Given the intent and the purpose of the CBI to provide trade and development opportunities for all beneficiaries, I respectfully urge that the Congress make reasonable modifications to the proposed legislation that will take due account of the Netherlands-Antilles' special interests and circumstances with respect to petroleum and petroleum products. Our preference would be to accomplish this purpose by simply lifting the current exclusion of petroleum and petroleum products from eligibility for unrestricted, duty-free access under the CBI program. The amount of these products that would be made available to the U.S. market from the Netherlands-Antilles and the very limited number of other potential CBI sources would not be sufficient to pose any discernible competitive threat to any U.S. domestic interests. In addition, the Netherlands-Antilles would then be in a position to obtain CBI trade benefits which it is not in a position to obtain through other means.

Alternatively, in the unlikely event the Congress were to determine that some level of quantitative restraints on imports of petroleum and petroleum products from the CBI is necessary, we believe any quota based upon recent historical volumes of Netherlands-Antilles exports to the U.S. of these articles would be unreasonably low. In the case of the Netherlands-Antilles, we believe a base quota calculated by increasing current import amounts by approximately 30 percent would serve any U.S. interest in maintaining some level of restraints while allowing a sufficient market opportunity for the Netherlands-Antilles to derive a reasonable amount of benefits. We also suggest that any aggregate quota or overall cap be eliminated.

Besides simplifying certain aspects of the CBI system, these modifications would have the added effect of permitting the Netherlands-Antilles to participate in the program on equal terms with other beneficiaries who, in contrast to ourselves, are able to take advantage of expanded benefits in areas such as textiles or sugar.

The second issue of concern to us relates to the exchange of information requirements applicable to CBI beneficiary countries. The current CBI law conditions the availability of so-called "section 936" funds for investment projects in CBI countries in part upon the existence of an exchange of information agreement between the U.S. and the beneficiary country which satisfies the requirements of section 274(h)(6)(C) of the Internal Revenue Code of 1986, as amended by section 222 of the CBI law. H.R. 3101, section 5, does not deal directly with these provisions but adds a requirement that beneficiary countries regularly submit reports to the President on certain CBI related matters, including the status of efforts to conclude information agreements, or if an agreement is in effect, on the operation of the agreement. Failure to meet this reporting requirement may result in suspension of duty-free CBI benefits.

The U.S. Treasury and the Netherlands-Antilles have been through negotiations leading to the conclusion of a tax treaty which was signed in 1986. An information exchange agreement is included as part of this treaty. The balance of benefits contemplated as the result of concluding the treaty has not, however, gone into effect because it was affected by the 1986 Tax Reform Act, and the U.S. Treasury could not restore the balance of benefits under the treaty as mandated by an exchange of diplomatic notes in August of 1986.

In addition, the U.S. Treasury has taken the position that an information exchange agreement meeting the requirements of section 274(h)(6)(C) of the Internal Revenue Code mandates that the Netherlands-Antilles must eliminate its bearer share system. For reasons I will describe shortly, we believe Treasury's position places an unfair burden on the Netherlands-Antilles. Also, in terms of the CBI, failure to resolve this issue effectively precludes us from access to section 936 funds and other benefits available under the CBI.

Our reading of section 274(h)(6)(C) is that this law does not bar the existence of bearer shares per se, but only prohibits their having a legal confidentiality effect. In our view, the position taken by the Treasury is unduly rigid and may mistake the Netherlands-Antilles' legitimate reasons for retaining a bearer share system for opposition to meeting the disclosure obligations of an information exchange agreement.

To put this matter in proper perspective, the Netherlands-Antilles' bearer share system is 300 years old. It is ingrained in the economy and is a deeply rooted means for conducting business. Departure from the system would not only require fundamental legislative changes throughout our civil code system, it would also require a profound alteration in long-established ways of doing internal business. In these circumstances, we consider it both unreasonable and unnecessarily intrusive to insist upon the system's elimination. We also believe it contradicts the basic character of the CBI as a one-way system of preferences rather than a bilateral or multilateral system of mutually negotiated concessions.

We believe the problem with bearer shares arises out of the Treasury's premise that they are necessarily or by nature more inconsistent with disclosure requiremetns than any other system. We do not believe this premise or approach is justified. To cite an example, the nominee system, which is permitted in the U.S., is no better in terms of assuring full disclosure than the bearer system. Both systems involve problems of traceability, and neither guarantees access to all the information that might be desired under a full disclosure system. In these circumstances, the question becomes why our bearer share system has been singled out for abolition, and all the disruption that would entail for the Netherlands-Antilles, but nominee systems such as the one in Barbados, which has an information exchange agreement with the U.S., have not also been proscribed.

In sum, we are not opposed to the principle of disclosure. We have absolutely no problem, for example, with provisions requiring override of bank secrecy laws. We do, however, object to a position which interprets disclosure to mean mandatory abolition of our bearer share system. The result of this interpretation is to reach very deeply into our internal affairs and to require us to make fundamental and highly disruptive changes in long and very firmly established business practices. It is particularly unfair to require this where the cost to us in terms of economic hardship does not result in any comparable benefit in terms of promoting elimination of secrecy.

We nevertheless believe it is possible to reconcile legitimate and reasonable U.S. interests in disclosure with our own valid interest in not being denied access to CBI benefits because we wish to preserve a system that is essential to our internal business life. We would urge, therefore, that you include in H.R. 3101 language to the effect that, for purposes of eligibility for CBI benefits, conclusion of a tax information exchange agreement meeting the requirements of section 274(h)(6)(C) of the Internal Revenue Code of 1986 shall not require the abolition of a bearer share system existing in a beneficiary country, so long as other applicable disclosure requirements are met.

Finally, we believe the CBI could serve as a vehicle for facilitating the access of certain beneficiary countries to educational and scholarship assistance available under existing programs such as the Presidential Training Initiative for the Island Caribbean [PTIIC] established pursuant to section 613 of the United States Scholarship Program for Developing Countries Act of 1985, 19 U.S.C. § 4701. The program is administered through the A.I.D.

As I am sure you would agree, education is an essential element in economic development. We will not be able to carry forward on our plans to improve and diversify our economy without people having the skills and knowledge needed to administer, operate and maintain the necessary systems and structures.

As currently administered, however, the programs noted are not available to the Netherlands-Antilles and certain other CBI countries. This is because the criteria for obtaining the "developing country" status needed to qualify for these programs are based on mechanical formulas that do not take sufficient account of an individual country's specific development needs such as diversification, infrastructure improvement and wider income distribution. Expanded educational opportunities are an important factor in addressing these kinds of developmental needs.

Since Congress has already expressly allocated a significant portion of foreign educational assistance specifically to the Caribbean region and continues, through H.R. 3101 and other measures, to act on its concerns for regional development, we believe it would be in keeping with these purposes to make educational assistance available to all CBI beneficiaries. This could be done by clarifying that CBI beneficiary status automatically qualifies a country as a developing country for purposes of eligibility for educational assistance under programs such as those I have noted.

In conclusion, I thank the Chairman and the members of the Subcommittee on Trade for this opportunity to present the concerns and views of the Netherlands-Antilles regarding legislation to amend the CBI law and respectfully urge their careful consideration.

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LONDON OFFICE
GJW
64 CLAPHAM ROAD
LONDON SW 9
01-582-3119

Mr. Robert J. Leonard
Chief Counsel
Committee on Ways and Means
Room 1102
Longworth House Office Building
Washington, D.C. 20515

December 7, 1987

Dear Mr. Leonard,

Enclosed are six copies of written statements regarding H.R. 3101, the Carribean Basin Economic Recovery Expansion Act of 1987, from the embassies of fourteen countries which could be affected by Section 10 of the bill. The statements are intended to follow up on a letter that was sent to Chairman Gibbons and Representative Pickle December 1st (six copies also attached), in which the embassies of eighteen countries who export sugar to the United States under the U.S. sugar program outlined their concerns about H.R. 3101's possible effect on the sugar import quota.

We would very much appreciate it if these statements, along with the December 1 letter to the Chairman and Mr. Pickle, could be printed in the written record of the hearings. We realize that this is a rather large package of material, and that parts of it do not strictly adhere to the formatting requirements outlined in Chairman Gibbons' release on the public hearings, but due to the number of countries wishing to be heard and the difficulty in coordinating and assembling their efforts, it was not possible to have all the statements in this form. However, we have tried to keep them as brief and concise as possible, and would very much like to have them become a part of the written record of the hearings.

Sincerely,

Christopher Kovin

Christopher Kovin,
Research Assistant

The Caribbean Basin Economic Recovery Act (H.R. 3101) recognizes the negative consequences of the current U.S. sugar program on the CBI beneficiary countries. Section 10 of H.R. 3101 seeks to redress these problems. Completely overlooked by the bill, however, are the 27 other countries that export sugar to the U.S. and that have shared the difficulties spawned by U.S. sugar policy.

On December 1, 1987, 18 of these countries joined in submitting a letter to the members of this Committee discussing Section 10 of H.R. 3101. A copy of this letter is attached. Also attached are papers from a number of these countries demonstrating the adverse effects the U.S. sugar program has had on their economic, political and social well being. The papers, prepared by the embassy of each country, specifically relate their own experience under the U.S. program. Each country has its own story to tell. The common thread running throughout, however, is that a continuation of current U.S. policy can only further exacerbate the already deteriorating economies of many of these countries. Some of the least developed countries are represented here, as are some that are very heavily dependent on the U.S. market for export revenue. They are all bound by their need for continued and expanded access to the U.S. sugar market.

It is respectfully requested that the Committee, in considering H.R. 3101, should be cognizant of the problems caused by the U.S. sugar program for all countries that have traditionally exported sugar to the U.S.

December 1, 1987

The Hon. Sam Gibbons
U.S. House of Representatives
2204 Rayburn House Office Building
Washington, D.C. 20515

Dear Congressman Gibbons,

We are writing to express our concern with Section 10 of the Caribbean Basin Economic Recovery Expansion Act of 1987 and its effect on other sugar quota countries. This provision specifies that the U.S. sugar quotas of CBI beneficiary countries be increased to their 1983/84 levels but does not state how this is to be accomplished. This is a critical point for our countries, since we supply the bulk of non-Caribbean sugar exports to the United States.

The intent of the bill is unclear. If the intent of the bill is to reallocate the existing quota to CBI beneficiaries, then our countries will be barred from the U.S. sugar market. In the 1988 quota year, such a CBI preferential quota would result in a reduction, probably to zero, for all other quota countries. If the intent is to maintain the current level of imports for all other quota countries while substantially increasing the level of imports from CBI beneficiaries, it would establish a preferential quota for CBI beneficiaries.

Our concerns are to ensure that (1) the U.S. sugar quota continue to be allocated on a non-discriminatory basis, consistent with the U.S. obligation under the General Agreement for Tariffs and Trade (GATT) as well as the terms of the waiver obtained by the U.S. for the CBI Program, and (2) U.S. imports of sugar be increased consistent with the U.S. commitment to trade liberalization and expansion.

Your legislation is significant in that it recognizes the importance of the U.S. sugar market to exporting countries. However, it presently does not recognize the importance of the

U.S. market to non-CBI quota countries. Sugar sales are of major importance to the economic and social well-being of our countries, just as they are to the nations of the Caribbean Basin.

Last July, we sent you a copy of a letter addressed to the Speaker of the House in which we pointed out how the U.S. sugar program negatively affects our economies. In that letter (copy enclosed) we expressed support for legislation that would liberalize the U.S. sugar market for all sugar exports to the United States. We reiterate that the only lasting way to solve the problems caused by the U.S. sugar program is to change the program with a view to restoring import levels of all quota countries.

We would welcome an opportunity to discuss our concerns with you.

Enclosure:
  Letter to Congress
  July 9, 1987

H.E. MARIO RIBADENEIRA, Ambassador of
Ecuador

MR. ABDUL YUSUF, Charge d'Affaires of
Fiji

MR. LUIS PAZ, Charge d'Affaires of
Bolivia

L Paz

H.E. F.R. DALRYMPLE, Ambassador of
Australia

Dalrymple

H.E. LEON M. RAJAOBELINA, Ambassador of
Madagascar

MR. ABINANT NA RANONG, Charge d'Affaires of
Thailand

Abinant Na Ranong

H.E. VICTOR MOSQUERA CHAUX, Ambassador of
Colombia

H.E. CESAR G. ATALA, Ambassador of
Peru

H.E. CHITMANSING JESSERAMSING, Ambassador of
Mauritius

MR. ALBERT BRA SARAKA, Charge d'Affaires of
Cote d'Ivoire

H. E. MACILIC MARQUES MOREIRA, Ambassador of
Brazil

MR. CARLTON DLAMINI, Charge d' Affaires of
Swaziland

H. E. E.R.M. GARWE, Ambassador of
Zimbabwe

MR. LONGAS SOLOMON, Charge d'Affaires of
Papua New Guinea

MR. EDUARDO AIRALDI, Charge d'Affaires of
Argentina

H.E. MARTOS MARTENEZ MEDIETA, Ambassador of
Paraguay

Marcos Martinez Mendieta
Embajador del Paraguay

H.E. T.S. MANGWAZU, Ambassador of
Malawi

H.E. HECTOR LUISI, Ambassador of
Uruguay

July 9, 1987

The Speaker of the House
  of Representatives
Washington, D.C. 20515

Dear Mr. Speaker,

We are writing to express the shared concerns of our respective Governments with the serious effects of the United States sugar program on our sugar industries and exports. Our national economies are suffering damage from diminished access to the U.S. sugar market and from the effects of U.S. policy on the world sugar market.

U.S. imports of sugar have been cut unilaterally by 80 percent, or from just over 5 million short tons in 1981, i.e. the year prior to the introduction of import quotas, to a quota of 1 million short tons in 1987. This has resulted in a substantial loss of export income from the U.S. market. In addition, the world market as a whole has been disrupted by displaced tonnages onto markets other than the U.S. and by the dumping of a substantial volume of sugar on the world market in 1986 by the U.S., which has resulted in severely depressed prices. Restrictive U.S. import quotas imposed on a wide range of products containing sugar have similarly contributed to lower export earnings.

The damage already inflicted on our economies through reduced export earnings has had significant effects on employment, external indebtedness and our capacity to purchase and finance imports, including goods and services which would normally be purchased from the United States. This has significant implications for U.S. relations with sugar exporting nations. Unless U.S. sugar policy is changed, this damage will be compounded by the emergence of a net surplus of sweetener production in the U.S. as was realized in the EEC in the 1970's.

Our Governments are concerned that there is already pressure in the U.S. to sell further quantities of subsidised sugar on the world market. This would have catastrophic effects on the world price, and devastating effects on the industries of even the world's most efficient producers of sugar.

The government of the United States of America has for many years condemned internationally the practice of maintaining price support levels on agricultural products that are far higher than world market prices. Nevertheless, U.S. sugar producers have been able to rely on administered domestic prices which are, at present, some three times greater than free world market prices. This shelter from international competition has promoted uneconomic production and has distorted sweetener markets by encouraging the penetration of sugar markets by alternatives, principally corn sweeteners. Market forces have not been permitted to operate effectively.

The continued operation by the United States of such an anti-competitive system of domestic sugar production weakens support internationally for efforts to bring about market-oriented policies and reduce trade barriers.

Accordingly we request that you urgently support steps to legislate changes to the U.S. program that will halt the erosion of imports and provide for steadily increasing access for sugar exports to the U.S. market. Such action would be consistent with the undertakings given by the U.S. Government at Punta del Este in September, 1986 to put a stop to protectionism and to seek, through the GATT, to liberalize world trade. Support for this process is essential for the preservation of a healthy world economy.

H.E. ENRIQUE J.A. CANDIOTI, Ambassador of
The Republic of Argentina

H.E. F.R. DALRYMPLE, Ambassador of
Australia

H.E. FERNANDO ILLANES, Ambassador of
The Republic of Bolivia

H.E. MARCILIO MARQUES MOREIRA, Ambassador of
Brazil

MRS. XIMENA CASALINO, Charge d'Affaires of
Colombia

H.E. P.K. KAUL, Ambassador of
India

H.E. MARIO RIBADENEIRA, Ambassador of
Ecuador

p.

MR. ABDUL YUSUF, Charge d'Affaires of
Fiji

P H.E. CHARLES GOMIS, Ambassador of
Cote d'Ivoire et P.O.

Chargé d'Affaires

H.E. TIMON S. MANGWAZU, Ambassador of
Malawi

H.E. CHITMANSING JESSERAMSING, Ambassador of Mauritius

MR. LONGAS SOLOMON, Charge d'Affaires of Papua New Guinea

MR. AMADO MARTINEZ ROJAS, Charge d'Affaires of Paraguay

Martine

H.E. CESAR G. ATALA, Ambassador of Peru

FOR: H.E. EMMANUEL PELAEZ, Ambassador of The Philippines

Paul M. Pale

H.E. LEON RAJAOBELINA, Ambassador of Madagascar

H.E. PETER H. MTETWA, Ambassador of Swaziland

H.E. ARSA SARASIN, Ambassador of Thailand

H.E. HECTOR LUISI, Ambassador of Uruguay

H.E. E.R.M. GARWE, Ambassador of The Republic of Zimbabwe

Garwe

EMBASSY
OF THE
ARGENTINE REPUBLIC
OFFICE OF
ECONOMIC COUNSELORS

ARGENTINA AND THE U.S. SUGAR PROGRAM

Since the imposition of sugar quotas Argentine exports to the United States dropped from 103.337 tons in 1983 to 60.247 tons in 1986.

For the period 1977/81 Argentina's average exports to the U.S. amounted to 260,000 tons, in 1981 exports peaked at 400,000 tons representing approximately 200 million dollars. Estimated export values for 1987 amount to 14.2 millions.

Sugar production greatly influences Argentina's overall production. The Argentine sugar industry, located in the north-eastern region of the country (Salta, Jujuy and Tucuman) is the backbone to that area's socio-economic structure. Sugar is produced in 25 refineries with 15,000 sugar cane producers employing approximately 100,000 workers. In the province of Tucuman sugar production alone amounts to 60% of the province's gross product.

Argentina's domestic sugar program oversees production. In 1985 due, to the international's market critical condition it reduced the annual production from 1.5 to 1.1 million tons. As a result 5.5 million tons of sugar cane were not harvested, dramatically increasing unemployment. Argentina also reduced its export allotment from 500.000 to 100.000 tons. These changes represented a 28% drop in local production and an 80% drop in exports.

The Sugar Quota Progam has significantly reduced Argentina's export earnings at a time when the country is making every effort to comply with the service of its foreign debt. Reduced export earnings will severly affect Argentina's ability to purchase goods and services in the United States.

As a result of the quota system and the U.S. current sugar price support program, the domestic price of sugar in the United States is at a level far above the world price. The current programs impose a heavy cost on U.S. consumers and industrial users of sugar.

1667 K STREET, N.W., SUITE 610, WASHINGTON, D.C. 20006, PHONE: (202) 265-4557

EMBASSY OF AUSTRALIA
WASHINGTON, D. C.

AUSTRALIA

- Australia is the world's third largest exporter of sugar. Sugar is one of its major export commodities. It is the mainstay of the economy of the Queensland coast of Australia and has important regional implications. The industry employs directly 120,000 people, including 6,400 private canegrowers.
- Prior to the introduction of import quotas in the U.S., the U.S. was Australia's second major export market, peaking at 800,000 tonnes (1981). Australia's exports to the U.S. have been reduced, under quota, to less than 70,000 tonnes in 1987, resulting in a very substantial loss of income.
- This loss of income has been a significant element in the growth in the overall U.S. trade surplus with Australia which in 1987 stood at a record $2.8 billion (the second largest trade surplus the U.S. had with any country).
    - The value of U.S. imports of sugar from Australia has plummeted from an average of $177 million per year in the three years prior to introduction of import quotas (1980-82) to $39 million in 1986.
- Australia is more dependent on the volatile free world market for sugar than is any other major exporter. It has therefore been particularly affected by the global price-depressing effects of the massive reduction in the U.S. market which has displaced sugar onto other markets. It is especially concerned with increasing U.S. subsidies on sugar exports and the prospect that on current trends the U.S. will become a surplus sweetener producing country in the next few years.
- It is estimated that in the years 1983 to 1986 the U.S. sugar program has cost Australian exporters up to $1 billion due to its depressing effects on the world market price.
- Unlike U.S. and EEC sugar producers, Australian producers and exporters have not been insulated from world market forces through extensive subsidy schemes.
- For many years Australia restrained production of sugar to try to improve world prices through the recent International Sugar Agreement.

7 July 1987

EMBAJADA DE BOLIVIA
WASHINGTON, D. C. 20008

BOLIVIA: SUGAR EXPORTER

Ref.: Effects of U.S. Sugar Program on Bolivia

The annual U.S. sugar import quota for the quota year 1987 has fallen dramatically below the 1986 quota.

This will have a negative effect in our economic-social and political reforms, which have begun in 1985.

The new administration of President Victor Paz Estenssoro has, in a short period of time, reduced Bolivia's hyperinflation from 25,000% to 2%, has estimulated the private sector, lifted price controls, reduced the size of government, and reformed the tax system.

Nevertheless, Bolivia continues to suffer from the very low international market prices for tin and hydrocarbons, our key natural resources.

At the moment, the reduction in the sugar import quota for the economy of Bolivia represents more than 16 million dollars, thousands of farmers without employment and of more critical importance to Bolivia in the agricultural sector is our need to direct some of our coca leaf grower population to sugar cane and other crops.

Crop substitution is a fundamental part of our narcotics planning, and Bolivia cannot afford at this time to reduce its agricultural options if we are to succeed in the war against illicit narcotics.

As we mention before, Bolivia feels that the reduction in the U.S. sugar import quota tonnage in Fiscal Year 87/88 and in the comming years would be an adverse development to our economic-political and social goals, and would not be in the best interest of both our countries.

September, 1987

BRAZILIAN EMBASSY
Commercial Section
3006 Massachusetts Ave., N.W.
WASHINGTON, D.C. 20008

10.05.1987

Brazil has traditionally been one of the world's main producers and exporters of sugar and one of the leading suppliers to the U.S. market.

2. The importance of the sugar industry in Brazil can not be overemphasized, for it represents a vital source of income for a number of areas in the country. In the North east of Brazil, an economically depressed area, where there are pockets of absolute poverty, sugar is one of the most important and sometimes the sole source of income.

3. In recent years, because of the adoption of the quota system in the United States, Brazilian sugar exports to this country have fallen dramatically. In the 1981 calendar year, Brazilian sugar exports to the U.S. totalled 1,069,000 short tons. For the quota year 1987, Brazilian quota is limited to merely 131,950 short tons, i.e., less than 13% of the total amount of six years ago.

4. This situation curtails Brazil's international capacity to earn much needed foreign exchange as well as brings about economic and social distress to specific producing areas in the country.

...

Colombian Government Trade Bureau
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PX-WA-1788

Septiembre 21, 1987

To: Ms. Rollinde Prager

From: Andres Lloreda

Re: Colombian Sugar Industry

The Colombian sugar industry is well known for its high productivity. Of an anual production of approximately 1,250,000MT, one million tons are consumed domestically, 120,000 are used for animal feed, and, in 1987, only 100,000 will be exported, compared to 300,000MT exported in 1985. This reduction is the result of a decline in the international price of sugar and the United States sugar program. In terms of foreign exchange earnings, exports for 1980 reached $166 million, compared with only $39 million for 1986, or 37% of 1980 exports.

The dramatic decline in exports has had serious negative repercusions on the Colombian economy, since the sugar industry represents 1.1% of GNP, reparcusions which are even more serious for the Department of the Cauca Valley, where the sugar industry represents 10% of GP and over 35,000 direct jobs and 100,000 indirect jobs. The economic, social, and political stability of the Department of the Cauca Valley is directly related to the sugar industry. The United States sugar program has had negative influence both in terms of the international sugar market and on the income generated by sugar exports. For the period 1985-1987 the Colombian sugar industri was forced to sell 350,000 tons of sugar for animal feed, at prices which are substantially lower than the international price. This program has resulted in a reduction of 450,000 tons in imports of sorgun, which otherwise would have been imported from the United States.

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FIJI

IMPORTANCE OF SUGAR TO FIJI ECONOMY

1. The sugar industry is the mainstay of the Fiji economy. It has been the dominant economic force and the engine of growth of the economy for over 100 years. Its predominant position still prevails and is likely to continue for some time in the foreseeable future. It is important to note the GDP contribution of sugar to the Fiji economy, and the consequent hardships caused to people when sugar earnings are depressed.

2. Although on a per capita basis sugar consumption in Fiji is high, the relatively small local market creates reliance on export sales for over 90% of Fiji sugar production. Furthermore, Fiji is highly and vulnerably dependent on sugar for export earnings in the absence of any significant contribution from other export commodities. In recent years receipts from sugar and molasses have accounted for over 70% of total domestic export earnings. The structure of the Fiji Sugar Industry and its socio-economic importance is unique.

3. In Fiji, cane is grown by over 22,000 individual cane growers on the drier side of the main islands of Viti Levu with farm sizes averaging about 4 hectares. Under the formula for sharing proceeds between the FSC (the Miller) and the cane growers, the latter receive 70% of the total sugar proceeds.

The income from sugar provides the only source of livelihood for 22,000 growers and their families, and with depressed sugar prices this causes severe hardship on the growers and their families.

4. The other unique feature of the sugar industry in Fiji is the labor-intensive nature of the farm operations. Because of the small sized farms, and scarcity of financial rescources, most farming operations including harvesting and loading are carried out manually. The labor-intensive nature of the operations also sees a very large workforce of cane cutters and farm workers dependent on the sugar industry for their livelihood.

5. Apart from the cane growers and others involved in cane growing, harvesting and transport, about 4,000 people are involved in the sugar manufacturing operations. In total about 25% of the economically active population of Fiji derives its income from the sugar industry and, there are many more indirectly dependent on it as the impact of the sugar earnings is felt through the economy.

6. Government is fully aware of the grave dangers of such heavy dependence on one product, and it is doing all it can in encouraging agricultural diversification. However, because of limited market outlets for commodities that can be grown in Fiji, the vast distances from overseas markets and the fluctuating prices on world markets, diversification into other commodities have had limited success. Thus in the absence of other significant economical contributions from agricultural commodities we have had to continue developing the sugar industry.

7. Prior to the introduction of U.S. import quota Fiji exported an annual average of 58,000 strv to the U.S.A. for the five year period 1977 to 1981. For the sugar quota year 1985/86 Fiji's quota for the U.S. market was announced at 12,500 strv.

8. Fiji's sugar production for the 1984 and 1985 season average 400,000 for 1986 it was over 500,000 strv.

9. Fiji like some other countries have maintained average export earnings from sugar mainly on U.S. and EEC markets. However as generally about 40 percent of the crop has to be sold at world prices, this exposes the industry and indeed the economy, to the vagaries of the international price.

10. Depressed international prices and loss of numerative sugar markets will continue to cause hardships to the 22,000 growers who provide the raw material for the industry which supports the economy of Fiji.

Washington, D.C.
14 October, 1987

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STATEMENT BY MALAWI ON THE UNITED STATES SUGAR PROGRAM
FROM THE MINISTRY OF TRADE, INDUSTRY AND TOURISM

I would like to respectfully express concern on behalf of my government to the United States Government on the effects the U.S. Sugar Programme will have on the Malawi economy. At the moment Malawi sugar exports to the U.S. market is declining and as a result the Malawi economy is suffering considerable damage.

My government has noted with regret that U.S. imports of sugar have been cut unilaterally by 80 per cent, or from just over 5 million short tons in 1981 to a quota of 1 million short tons in 1987. The effects to Malawi of this global reduction of sugar quota is that Malawi's sugar export to the U.S. market has been drastically reduced from the 1984/85 peak figure of 35,400 short ton raw value to a mere 9,100 (STRV). In dollar terms, Malawi has lost some USDLR2.2 million in export earnings in 1985/86 and USDLR3.8 million in 1986/87 as a result of her reduced sugar quota in the U.S. market.

Accordingly, the Malawi government earnestly requests that due consideration be given to import the U.S. quota of those countries most in need. The need for a greater allocation of a sugar import quota for Malawi is of paramount importance.

Malawi is a least developed, landlocked country whose economy is heavily dependent on the export of few commodities for her foreign exchange earnings. As a matter of fact, 95 per cent of Malawi's domestic exports consist of agricultural products.

Sugar is the third largest foreign exchange earner after tobacco and tea and contributes as much as 24 per cent of the total export earnings. In addition, total sugar export to U.S. as a proportion of total sugar exports to all destinations has gone as high as 73 per cent (1981 figures), hence, the high dependence of Malawi on the U.S. sugar market for her foreign exchange earnings which in turn would be used to pay for imports of agricultural inputs and industrial machinery needed for the development process of the agricultural and industrial sectors.

Moreover, the sugar industry is one of the largest employer in Malawi. About 11,000 people are directly employed in the sugar industry whilst the number of people indirectly dependent upon the industry is far higher. Hence, sugar exports to U.S. and other international markets affect the livelihoods of a large number of people.

Malawi needs a better access of the U.S. sugar markets in order to continue benefitting from the more lucrative sugar prices currently standing at USDLR420 per short ton. If Malawi cannot obtain a better access into the U.S. sugar market she will be forced to sell most of her sugar on the world market where owing to piles of surplus stocks prices are very low and therefore unremunerative.

In addition, the more advantageous U.S. sugar prices have helped Malawi offset the very high cost of transport to the sea. The transport costs to the sea are high because of the landlocked situation of Malawi and its dependence on Mozambique for its export routes. Continued dissident activities along the traditional routes to the Ports of Nacala and Beira have increasingly disrupted all rail movements on the two existing rail routes to these Ports thereby bringing rail movements on these lines to a complete halt. The new routes are extremely expensive for our exports. For example, the cost of re-routing the sugar is K188 per tonne compared to K58 on the traditional routes. Consequently, 50 per cent of the FOB proceeds from sugar sold on the world market is spent on transport costs while in the case of sugar sold to the E.E.C. and U.S.A. under the preferential quota arrangement, 20 per cent of the FOB proceeds is spent on transport to the coast.

Therefore, the immediate adverse effect of the reduced sugar quota to the sugar industry in Malawi at the time the two sugar companies are facing cash flow problems exacerbated by the high cost of alternative routes to the Ports, makes it impossible to sell sugar at the current world market profitably. As a result, sugar industry in Malawi experiences serious difficulties regarding the repayment of its off-shore loans which currently stand at USDLR6 million and have been rescheduled several times. In recognition of the above, my government is requesting the U.S. government to take cognisance of the special position of Malawi as a least-developed, landlocked country highly dependent on earnings from sugar exports and accord sympathetic consideration to Malawi's request for a greater sugar quota in the U.S. market.

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SUMMARY OF THE EFFECTS OF THE U.S. SUGAR QUOTA PROGRAM ON MAURITIUS

Mauritius has traditionally been highly dependent upon the cultivation and export of sugar. Prior to the imposition of the U.S. sugar quota in 1982, sugar exports constituted 63 percent of all export revenues earned by Mauritius. Although recent economic diversification programs have succeeded in creating nascent industries (for example, textiles), sugar remains the cornerstone of the Mauritius economy. For decades, the U.S. has been an important purchaser of Mauritian sugar. With the imposition of the current U.S. sugar quota program, however, Mauritius' access to the U.S. sugar market has been severely restricted, causing the following serious negative effects on the economy of Mauritius.

1. Mauritius is especially dependent upon sugar exports. Sugar exports currently constitute more than 40 percent of total export earnings, making Mauritius one of the most sugar-dependent countries under the U.S. sugar quota. Consequently, the economy of Mauritius is particularly sensitive to reductions in its sugar exports.

2. Mauritius' earnings on sugar exports to the U.S. have been significantly diminished as a result of the quota. During the period the quota has been in effect, Mauritius' annual sugar exports to the U.S., which exceeded 100,000 tons in both 1978 and 1979, have fallen to only 10,920 tons in 1987, while its annual foreign exchange earnings on sugar exports to the U.S. have decreased 82 percent. The negative effects on the Mauritius economy of reduced revenues from sugar sales to the U.S. have been exacerbated by the fact that U.S. foreign aid to Mauritius has fallen to negligible levels during the period the quota has been in effect.

3. The negative consequences of reduced access to the U.S. sugar market have been especially severe for Mauritius' numerous small to medium-sized sugar farm operations. Unlike the sugar industries of many other countries, a significant portion -- 42 percent -- of Mauritius' sugar is produced by small to medium-sized farms. There are currently approximately 35,000 such small to medium-sized sugar farms in Mauritius, most of which are family owned. Sugar cane cultivation is the only livelihood for many of these small farmers. Further reductions in their sales to the U.S. could seriously undermine not only their economic well-being, but also their way of life.

4. More people earn their livings producing sugar in Mauritius than in the entire U.S. sugar industry. In addition to 35,000 self-employed sugar farmers, nearly 20 percent of total private sector employment is involved in the sugar industry. As a result of reduced sugar production since the U.S. quota was imposed, however, more than 4,000 jobs have been lost in the Mauritius sugar industry. This represents a reduction of nearly 10 percent of the sugar industry work force.

5. The sugar industry of Mauritius receives neither subsidies nor price support protection from the Government of Mauritius. The same cannot be said of the sugar producers of the U.S.

6. Inasmuch as Mauritius sugar exports to the U.S. have dropped significantly during the past five years, opportunities for U.S. exports to Mauritius are bound to suffer due to decreased foreign exchange earnings by Mauritius on sugar sales to the U.S.

7. Finally, the progressive elimination of Mauritius' access to the U.S. sugar market will necessarily affect the traditionally friendly relationship between Mauritius and the U.S., both of which share common democratic ideals, a commitment to a free and uncensored press, and the tradition of open and free elections.

EMBASSY OF PERU
WASHINGTON, D. C. 20036

THE SUGAR SECTOR OF PERU:

The Peruvian sugar fields are owned and operated by cooperatives. The area dedicated to production of sugar is of approximately eighty thousand hectares (one hundred eighty thousand acres) and it yields an average of 350.000 metric tons per year under normal weather conditions.

Thirty two thousand workers, from whom eighty thousand families depend for their livelihood, are engaged in the production and industrialization of sugar in Peru.

TRADE RELATIONS WITH THE UNITED STATES OF AMERICA:

Peru has been a traditional supplier of sugar to the United States in years of hardship and bonanza. The records show that during shortages of sugar in the United States market, Peru increased its exports abandoning other attractive markets.

During the last three years, the United States sugar import quota assigned to Peru has been reduced substantially causing serious problems to the Peruvian economy, particularly to the workers and their families. The reduction of the quota and its negative effects has prevented Peru from replacing its already obsolete agricultural, transportation and operational equipment which is imported from the United States.

The situation described, together with the adverse effects of the "El Nino" , hinder the normal development of this sector in Peru.

ADVERSE EFFECTS IF U.S, SUGAR IMPORT QUOTA REDUCTION ON THE PHILIPPINE ECONOMY AND SUGAR INDUSTRY

Political, economic and social progress in the Philippines, particularly in the sugar-producing regions, are affected to a significant extent by the state of our domestic sugar industry. The Philippine government is therefore deeply concerned with the current depressed state of the industry - a condition which has led to unemployment, hunger, and increased activity of communist insurgents in our sugar areas.

The decline of our sugar industry is mainly attributed to the drastic fall in Philippine sugar exports to the U.S. market, which historically has been the principal outlet for our sugar. This is graphically illustrated in the following data on our sugar exports to the United States in the last five years:

U.S. Sugar Quota Allocations to RP
(In short tons, raw value)

1982/1983	378,000
1984	410,670
1985	342,900
1986	246,999
1987	143,780

In 1984, our earnings from sugar exports to the U.S. amounted to $144.9 million; those earnings were estimated to have reached only $90.4 million in 1986, almost $55 million less. It also meant the displacement of over 40,000 workers in our sugar areas since 1985. Efforts to shift to alternative crops are ongoing but are hampered by insufficient resources, the need to teach new techniques to farmers, etc.

A further reduction of the Philippine sugar export level to the U.S. market would negatively affect the Philippine economy precisely at a time when its recovery and growth are crucial to the maintenance of our newly-restored democracy. Needless to say, increased export earnings from sugar are vital in order to help finance our development needs, including the import of goods and services from the U.S., and to service our huge foreign debt. Such an increase could be easily be achieved by amending the U.S. Sugar Program in such a way that would enable the Philippines to increase both the quantity and value of our sugar exports to the U.S.

Philippines

IMPACT OF THE U.S. QUOTA REDUCTIONS ON RP ECONOMY

I. REDUCTIONS IN THE RP SUGAR QUOTA

U.S. SUGAR QUOTA ALLOCATIONS TO RP
(in short tons, raw value)

1982/1983	378,000
1984	410,670
1985	342,900
1986	246,999
1987	143,780

II. LOSS IN SUGAR EXPORT REVENUES

RP SUGAR EXPORTS TO (in million US$)	WORLD	U.S.
1982	416	75.5
1983	299	118.7
1984	246	144.9
1985	169	132.4
1986	98 (est.)	90.4
1987	55 (est.)	47.7 (est.)

III. DISPLACEMENT OF WORKERS IN THE SUGAR INDUSTRY

DISPLACED WORKERS:	AT FARM [1]	AT THE MILL [2]	TOTAL [3]
1985	+9,666	+439	+10,105
1986	+13,809	+627	+14,436
1987	+15,275	+694	+15,969
GRANDTOTAL	38,750	1,760	40,510

IV. OTHER IMPACT OF THE U.S. QUOTA REDUCTIONS ON RP ECONOMY

1. Displacement of workers in the ancillary services to the sugar industry, e.g., transport, construction and service workers.

2. Loss in the RP government revenues in the form of lower tax collection.

3. Increased government expenditures to provide socio-economic support to displaced workers and their families.

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[1] Estimates based on the average annual yields. In 1985, 1 (one) farm laborer is displaced for every 6.36 M.T. reduction in sugar production; 1986, ratio is 1: 6.3 M.T.; 1987, ratio is 1: 6.13 M.T.

[2] Estimates based on historical average, 1 (one) mill laborer is displaced for every 22 displaced farm laborers.

[3] Based on an average of 6 members to a Filipino family, the total member of persons directly affected by displacement of farm and mill workers since the U.S. quota was progressively reduced in 1985 will reach 243,060 in 1987.

EMBASSY OF THE KINGDOM OF SWAZILAND

SWAZILAND

- Sugar is the main export accounting for about 40 percent of the country's export earnings.
- The main effects of the U.S. sugar programme arose from the imposition of import quotas into the U.S.A.
- The percentages were determined by the U.S. Government on the basis of a formula which took into account imports over a period of years prior to the reintroduction of quotas in 1982.
- Unfortunately for Swaziland the formular did not cover the rapid expansion of Swaziland's sugar exports to the U.S.A. in the later 1970s and early 1980s and indeed excluded from consideration the 17547 MTRV exported in 1981. As a result, Swaziland's share of the global quota was established at 1.6 percent which in turn became less than 41000 MTRV for the first quota 'year' starting on 1/10/82. Since then the percentage of 1.6 has remained steady but the global quota has shrunk so that in the current quota 'year' ending on 31/12/87 Swaziland is eligible to export only about 13200 MTRV. If one contrasts 13200 MTRV with 175947 MTRV exported in 1981 it becomes clear that a major outlet for Swaziland's most important export crop has virtually disappeared.

/2........

- The imposition of quotas has also had an enormous financial effect.

- The price obtained for sugar sold to the United States is usually higher than that which could be obtained for a sale to a 'normal' world market destination.

  The former is related to the subsidised prices paid to domestic cane and beet producers in the U.S.A. whilst the latter reflects free market supply and demand.

  At present the price which could be obtained for raw sugar exported to the U.S.A. would be about three times higher than for an equivalent world market sale. This factor has been even higher during the period of extremely low world market prices experienced recently.

- The impact of reduced revenue arising from smaller exports to the U.S.A. has not helped the Swaziland sugar industry in recent years during which prices obtainable for world market sales have been singularly low.

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EFFECTS OF THE U.S. SUGAR PROGRAM ON THAILAND

Thailand relies on the exports of primary commodities as its main source of foreign exchange. Of these commodities, sugar was ranked as Thailand's fifth major agricultural export in 1986. Approximately a million farmers are engaged in sugarcane cultivation and more than two-thirds of the total Thai sugar production is intended for export.

The U.S. Sugar Program has an adverse effect on the Thai sugar industry. After initial predictions in 1986 that the global sugar market was slowly recovering after a three-year slump, sugar prices dropped steeply due to the sale of U.S. sugar to China at a price far below the prevailing world price levels. The drop in sugar prices resulted in reducing the sugarcane price paid to Thai farmers from 450 baht per ton ($17.30 approximately) to 290 baht per ton ($11.15 approximately).

Furthermore, the 1987 import quota for Thailand has been reduced to 12,740 short tons. This represents a forty-seven percent decrease from the 1986 quota and totals less than one percent of total sugar exports from Thailand.

Because of the effects of U.S. sugar sales and the reduced import quota on the world market, 1987 sugar exports from Thailand are predicted to drop by as much as twenty-five percent. As an example, Thailand's sugar exports in January 1987 totalled 34,378 tons with a value of 131 million baht, decreases of 73.6 percent in volume and 75.1 percent in value as compared to December 1986 figures.

URUGUAY

URUGUAY BECAME A PARTICIPANT OF THE U.S. QUOTA SYSTEM IN THE FISCAL YEAR 1983/1984 (10.01.83 - 09.30.84). ON THAT OCCASION. THE SUGAR QUOTA WAS SET AT 16.500 SHORT TONS RAW VALUE FOR THE MENTIONED PERIOD.

IN THE FISCAL YEAR 1984/85 THE QUOTA WAS REDUCED TO 12.500 SHORT TONS. IN FACT, THIS REDUCTION HAD A GREATER HARMING EFFECT BECAUSE THE SO CALLED ''QUOTA YEAR'' WAS EXTENDED UNTIL NOVEMBER 30, 1985.

IN 1985/86 THE URUGUAYAN QUOTA MAINTAINED THE PREVIOUS VOLUME. IN THAT CASE THE QUOTA YEAR WAS EXTENDED FROM DECEMBER 1, 1985 TO DECEMBER 31, 1986.

FINALLY, BY THE MIDDLE OF DECEMBER 1986, THE SUGAR QUOTAS WERE REDUCED AGAIN FOR THE PERIOD OF JANUARY 1. 1987 THROUGH DECEMBER 31, 1987, WHEN 7.500 SHORT TONS RAW VALUE WERE ASSIGNED TO URUGUAY. THIS SITUATION REPRESENTS A SETBACK TO THE URUGUAYAN INDUSTRY SINCE THE PRICE DIFFERENCE BETWEEN THE U.S. MARKET AND THE WORLD MARKET, FLUCTUATES BETWEEEN 250 AND 280 DOLLARS PER TON.

THEREFORE, THE ANNUAL QUOTA REVENUE WAS REDUCED IN 1.200.000 DOLLARS COMPARED TO THE PREVIOUS YEAR. AND IN MORE THAN 2.000.000 DOLLARS COMPARED TO THE FIRST YEAR OF EXPORTS TO THE U.S..

THE NATIONAL SUGAR INDUSTRY IS CONFRONTING A SEVERE CRISIS DUE TO THE SURPLUS PRODUCTION WHICH EXCEEDS THE DOMESTIC DEMAND FOR THIS PRODUCT. THUS. THE POSSIBILITY OF PLACING THE SURPLUSES IN THE U.S. MARKET IS A VERY IMPORTANT ELEMENT IN ORDER TO PREVENT A LARGER BREAKDOWN TO THE INDUSTRY WHICH COULD GENERATE NEGATIVE SOCIAL CONSEQUENCES. IT IS IMPORTANT TO POINT OUT THE MAGNITUDE OF THE DAMAGE THAT THIS SITUATION IS CAUSING TO THE AGRO-INDUSTRIAL SECTOR AND THE IRRELEVANCY OF THE AMOUNTS OF THE REDUCED QUOTAS FOR THE UNITED STATES.

FINALLY, WE MUST MENTION THE DIRECT CONSEQUENCES ON TWO OF THE MOST IMPORTANT PROGRAMS FOR THE DEVELOPMENT OF THE AGRO-INDUSTRIAL SECTOR WHICH ARE BEING IMPLEMENTED IN URUGUAY: HORTICULTURE IN THE NORTH AND CITRUS IN THE WESTERN COAST. BOTH PROGRAMS ARE SUPPORTED BY THE TWO LARGEST ACTIVE SUGAR ENTERPRISES (CALNU AND AZUCARLITO) AND THE LOSS OF THE U.S. SUGAR MARKET MAY HAVE SERIOUS CONSEQUENCES ON THOSE COMPLEMENTARY PROGRAMS.

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EMBASSY OF THE REPUBLIC OF ZIMBABWE
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OUR REF.
YOUR REF.

U.S. SUGAR POLICY - ITS EFFECTS ON THE ZIMBABWEAN ECONOMY

The Zimbabwe sugar industry directly employs some 21 000 people most of whom work in the cane growing area of the south east of the country. When workers families are taken into account the indstry is directly responsible for some 100 000 people. There are, of cource, many other businesses and people who depend on the primary sugar industry for their livelihoods. This is particularly important when it is realised that the sugar growing area is remote from other main commercial and agricultural areas of Zimbabwe.

The reduction of Zimbabwe's sugar quotas into the U.S. is threatening the viability of the Zimbabwe Sugar Industry and in turn the livelihood of a substantial part of the workforce.

The following table demonstrates the downward trend of Zimbabwe's sugar exports to the U.S.

YEAR	*TONNAGE (STRV)*	*VALUE U.S. $*
1983	*39 600*	*17 460 000*
1984	*35 400*	*15 608 000*
1985	*30 480*	*13 439 000*
1986	*20 952*	*8 652 578*
1987	*10 920*	*4 157 215*

It can be noted that this trend has not only threatened employment but has deprived Zimbabwe of much needed foreign exchange.

The south-east of Zimbabwe is committed by way of investment, climate ans skills to the growing and milling of sugar cane. In order for the industry to continue to survive and provide employment and livelihood for its people, it needs to have access to world sugar markets.

The Zimbabwe sugar industry identifies with the U.S.A. cane refining industry to the extent that both industries have developed within the same global industry through the years. The quality of Zimbabwe sugar is high, and its record of reliability in delivery and commercial affairs is well respected.

It is Zimbabwe's view that the supply of natural sweetness to the USA should be left to the interplay of world market forces and that the USA should continue to support the development of developing countries by trading with them rather than stifling trade.

STATEMENT OF THE
PUERTO RICO MANUFACTURERS ASSOCIATION

Mr. Chairman and Members of the Subcommittee:

My name is Ruben Velez Lebron and I am President of the Puerto Rico Manufacturers Association ("PRMA"). With me is our Executive Vice President, Mr. Hector Jimenez Juarbe. I should like to express our sincere appreciation for the opportunity given to PRMA's more than 1700 members, to express their concerns regarding this piece of legislation. PRMA has a deep and continuing interest in any legislation that promotes foreign imports into the United States in general and those from the Caribbean Region in particular. As you may recall, PRMA testified before this body on June 9, 1983, when the Caribbean Economic Recovery Act was being considered.

PRMA has commissioned an economic study which analyzes the impact of H.R. 3101 on the apparel manufacturing subsector in Puerto Rico. A copy of the complete study has been previously mailed by PRMA to each member of the Committee on Ways and Means. At this time I should like to ask the Chairman to include the brief executive summary of that study as part of our testimony. In deference to the applicable time constraints, I will gladly summarize the findings set forth in that study.

When PRMA first appeared before you in 1983, we pointed out the threat that certain provisions of the proposed legislation posed to the industrial manufacturing sector of Puerto Rico. We were deeply relieved by the restrictions imposed by that legislation on the importation of foreign apparel and textile products. We are, however, greatly alarmed by the extremely harmful effects to Puerto Rico's manufacturing sector that will be produced by the provisions of Section 7(a) of H.R. 3101 allowing unlimited duty-free importation of articles manufactured or assembled in eligible countries using materials or components manufactured in the United States.

Manufacturing is the most important industrial sector in Puerto Rico. It generates approximately 62% of Puerto Rico's net income. Additionally, it is the fastest growing sector of the Puerto Rican economy and provides the highest rates of per capita employee compensation on the island. Given the island's present 15.5% rate of unemployment, Puerto Rico clearly depends on a dynamic and growing industrial manufacturing sector to continue generating the employment opportunities required by a rising labor force.

PRMA is particularly concerned regarding the adverse consequences of the provisions of Section 7(a) on the apparel, textile and leather manufacturing subsectors in Puerto Rico. Employment in those subsectors has been gradually declining since 1962 and continues to decline. We believe the provisions of Section 7(a) would rapidly and irreversibly accelerate the total demise of those subsectors. Let me briefly set forth the significance to Puerto Rico of such a demise.

Apparel manufacturing is one of the most important subsectors of Puerto Rico's manufacturing sector. This subsector has been adversely affected by rising wages, and growing imports. The apparel manufacturing subsector accounts for 21% of the island's total manufacturing labor force -- or some 31,000 direct jobs which pay an average compensation of almost $8,000 per each employee. Puerto Rico's apparel manufacturers ship 83.3% of their output to the mainland market. While mainland imports of Puerto Rican apparel currently account for 6.1% of the total United States apparel import market, one must keep in mind that in 1962, Puerto Rican apparel represented 24.7% of all apparel imported into the United States. This is a most dramatic decline. The economic study referred to earlier estimates that the provisions of Section 7(a), if enacted, would result in the rapid loss of 4,900 direct jobs and $39 million in payroll. Taking into account the multiplier effect, total employment loss would amount to 12,400 jobs. Recognizing these trends in 1983, Congress limited the quantity of foreign apparel that could be imported into the United States when it adopted the Caribbean Basin Economic Recovery Act. This policy, which made good economic sense in 1983, makes even more sense in 1988.

HR 3101 would allow the unlimited duty free importation into the United States of apparel from eligible countries, provided such apparel is made from textiles and other materials manufactured in the United States. Such importation would clearly spell the end of Puerto Rico's apparel manufacturing subsector. You must understand that manufacturers in Puerto Rico currently import the bulk of their textiles from the United States mainland. If foreign apparel manufacturers purchase their textiles from the same United States sources as Puerto Rican manufacturers and export their apparel to the mainland under the same conditions as Puerto Rican manufacturers, they will enjoy a significant and unfair competitive advantage over their Puerto Rican competitors. Their costs of production are significantly lower. The wage rates paid in those foreign countries represent between 13.7% and 24.4% of the wage rates paid in Puerto Rico for comparable employment. In addition, foreign manufacturers are not subject to federal or Puerto Rican social and labor legislation regulating health, working conditions, environment, maternity, severance and unemployment benefits among others, and which drive up the cost of the finished product. Thus, in providing foreign apparel manufacturers with unlimited duty-free access to United States markets, Congress is dealing a death blow to the Puerto Rican and mainland apparel manufacturing industries.

Furthermore, this legislation is highly discriminatory and promotes unfair trade. While apparel and other manufacturers located in eligible countries will be able to flood Puerto Rico's small market on an unrestricted duty-free basis, most island-made products will not be able to enter CBI markets because of protective measures currently in existence in those countries. Many of those CBI countries currently have negative lists, import quotas and other artificial barriers that effectively prevent the entry of Puerto Rican-made apparel or other products into their countries. Contrary to products manufactured on those foreign countries, Puerto Rican-made products cannot find duty-free access to Lome Treaty countries. In short, apparel and other products manufactured in Puerto Rico will be discriminated against. Neither the original legislation nor the proposed amendments seek to correct this fundamental discrimination.

I would like to close by stating as we did in 1983, that PRMA supports the noble principles behind the Caribbean Basin Initiative. We cannot, however, support provisions which clearly will result in the curtailment or elimination of hard-earned employment opportunities for those who need them most in Puerto Rico - women, the young, and those with less skills. Unlike the economies of most mainland communities, our economy does not have the capacity to replace the jobs that would be lost. Puerto Rico cannot accept the consequences of an increase in the level of unemployment; we cannot countenance dashing the hopes of a new generation of disadvantaged American citizens that seek a better future. PRMA submits that the migration to the United States mainland of the thousands who would be thus unemployed, together with the concommitant heavy social cost generated by such displacement, is too heavy a price to pay for a policy which, in our judgment, is clearly misguided, inequitable and unnecessary. PRMA respectfully urges this Subcommittee to reject the provisions of Section 7(a) of H.R. 3101 in the final legislation to be adopted.

Thank you.

2862b

EXECUTIVE SUMMARY HIGHLIGHTS

A REPORT ON
SOME EXPECTED ECONOMIC IMPACTS OF H.R.3101
UPON P.R. MANUFACTURING
WITH SPECIAL REFERENCE TO APPAREL MANUFACTURING

Bill H.R.3101 is under Congressional consideration to amend some provisions of the Caribbean Basin Economic Recovery Act. While the aims of the proposed amendments certainly are within the stated goals of the Puerto Rican people, since they stand to benefit our Caribbean neighbors in their struggle for social and economic development, there is one proposal within the bill that stands to create serious hardship to this island and the economic welfare of its people. This proposal is the one directed to provide unlimited duty-free treatment for articles manufactured, assembled, or processed in Caribbean countries from 100 percent U.S. materials, components and other products.

Puerto Rican manufacturing has an extensive use of American-made materials and components and sells most of its output in the continental market. Those manufacturing sectors that have been experiencing problems competing with foreign producers will certainly be vulnerable to this proposed change, particularly because the countries in question pay much lower wages than Puerto Rico, and because the dollar has not devalued against the currencies of the countries within the Caribbean region, and in many cases it has actually increased its exchange value with respect to those currencies.

As a result, it can be expected increased unemployment in manufacturing, as well as in the whole local economy, and an expanded trade deficit for the U.S.. The report documents and estimates some of the negative impacts upon the Puerto Rican economy that are expected to arise from a provision of unlimited duty-free treatment for articles manufactured in CBI countries using 100 percent U.S. materials. Special attention is devoted to apparel manufacturing, because of its vulnerability to the proposed change and for its quantitative importance for the local economy.

Manufacturing in Puerto Rico

Manufacturing is a most important industrial sector in Puerto Rico, and the economic development of the island is predicated upon the growth of this industry. In 1987, manufacturing accounted for:

62% of Puerto Rico Net Income
40% of its GDP
18% of total employment

It should be noted that manufacturing is much more important to the local economy than what it is the case in the continent, where it only accounts for 20 percent of the U.S. GDP.

Manufacturing is also the most dynamic sector in the local economy. Annual average rates of growth in net income from 1977 to 1987 are as follows:

Manufacturing	**11.8%**
Public Administration	**6.1%**
Services	**8.7%**
Construction	**2.3%**

And it also is a source for high compensation to labor, since employee compensation per capita in 1987 was:

Manufacturing	**$15,691**
Agriculture	**5,842**
Construction	**8,456**
Trade	**9,034**
Services	**8,714**

In this context, it can be noted that the Puerto Rican economy strongly relies upon the performance of its manufacturing industry for economic growth and employment creation, which is a most pressing local consideration, since its average unemployment rate in 1987, after more than five years of economic recovery, still was 17.7 percent.

Apparel Manufacturing

Although the importance of apparel manufacturing has been declining in Puerto Rico since the seventies, it is still a key sector for the local economy. It still accounts for about **21 percent of total employment generated in manufacturing** (some 31,000 direct jobs), paying an average compensation of $7,990 to its employees, which compares in favorable terms with what is paid in other sectors of the economy.

But this important player in the economy has been following a downward path in the recent past. The number of manufacturing establishments had declined from its **peak of 478 in 1969 to 259 in 1987. Total employment in the industry also peaked in 1969 when it provided 40,000 jobs to its present value of 31,000 in 1987.**

When apparel manufacturing in Puerto Rico is compared with its counterpart in the continental U.S. it can be seen that both have been following a declining path, but two important differences can also be identified:

1. **Apparel manufacturing is much more important for the Puerto Rican economy than what it is for the continental one.** In Puerto Rico apparel accounted for 17.6% of manufacturing income in 1960 and 5.8% in 1985, while the corresponding ratios for the U.S. are 3.9% in 1960 and 2.6% in 1985.

2. **The rate of decline in the local industry is much faster than the one registered in the continent.** From 1960 to 1985 the ratio of income in the apparel industry to total manufacturing income declined by 33.3% in the U.S., while in Puerto Rico it declined by 67.0%.

Most of the problems faced by the industry can be traced to increased foreign competition. The U.S. external trade of clothing products not only is deficitary, but the gap between exports and imports is widening. From 1965 to 1985 exports were increasing at an average annual rate of 5.9%, while imports grew at a rate of 12.1%. Moreover, between 1980 and 1985 U.S. exports declined by 36.3% (from $1,183 millions in 1980 to $754 millions in 1985), while imports increased by 132.5% (from $6,430 millions in 1980 to $14,949 millions in 1985). This situation has caused the **import penetration ratio** for apparel products in the U.S. to increase from **7.0% in 1972 to 20.3% in 1984**, reflecting the worsened position of domestic apparel manufacturers to compete with foreign producers.

The flood of foreign apparel manufactures to the U.S. market clearly has adverse effects to producers in Puerto Rico. Apparel shipments from Puerto Rico to the continent has declined from being **24.7% of total shipments in 1962 to 5.5% in 1987.**

Foreign producers have been able to take advantage of improved conditions to penetrate the U.S. market, worsening the competitive position of Puerto Rican apparel manufacturers. Among the factors acting upon favoring foreign producers are:

1. **Recent U.S. policies aimed to eliminate barriers to external trade.** As a consequence the ratio of duties to value of total imports of the U.S. has declined from 8% in 1965 to 4% in 1985, diminishing the protection to local manufacturers.

2. **Large disparities among wages paid to workers in manufacturing in Puerto Rico and those paid in other competing countries, including those in the Caribbean region.** Average hourly earnings in manufacturing in the Caribbean region fluctuate from 24.4% to 13.7% of the amount paid in Puerto Rico. Moreover, real wages in many Caribbean countries have actually felt down in recent years.

3. **The dollar has not experienced any reduction in exchange value with respect to Caribbean currencies, and in many cases it has actually increased its exchange value.** Such a development favors the penetration of manufactures from the region to the U.S. market, worsening the competitive position for American-made goods and, in consequence, hindering the ability of Puerto Rican producers to compete with these countries.

Expected Economic Impacts Upon Apparel Manufacturing

Local apparel manufacturing is particularly vulnerable to the provisions of the amendment proposed in bill H.R.3101. **This vulnerability arises from its extensive use of American-made materials in the production process 96.0% of the materials used are U.S. made , and because the industry ships 83.8% of its output to the continental market.**

Under these conditions it doesn|t surprise that **51.3% of the firms sampled expects to be adversely affected if the amendment is enacted as it is written. Total employment** in the sector **would decline by 19.4%**, for a **total loss of 4,900 direct jobs,** while **sales stand to decline by 23.5%.** This expected loss in employment implies a **reduction of about $39.5 millions in incomes earned** by Puerto Rican workers. When secondary impacts are taken into account by means of the multiplier effect, **total employment losses add up to 12,400,** a development that **would had increased local unemployment rate in 1987 from 17.7% to 18.9%.**

It should be noted that 12.5% of the firms in the sample already performs some phases of manufacture in other Caribbean countries. This percentage is expected to increase if the amendment is approved, since **53.1% of the firms sampled indicated that they would consider to move at least some of their operations out of Puerto Rico.** For those firms, the end result of the amendment is not to expand employment in the Caribbean region, but to relocate existing jobs out of Puerto Rico and into some foreign Caribbean countries.

Other Vulnerable Sectors

But **apparel manufacturing is not the only industrial sector that stand to suffer harm from bill H.R.3101.** Since the Puerto Rican manufacturing industry extensively uses U.S. raw materials and parts, and ships most of its output to the continental market, the effects of the bill are in no way limited to the apparel industry. **In general, any manufacturing activity that has been facing increased foreign competition in the national market, stand to be adversely affected by the proposed amendment. Two examples** of industrial activities facing this situation are the **textile mills and leather products.** The report briefly outlines the conditions experienced by these industries.

Both industries have experienced important declines in their abilities to generate incomes and create jobs, at the same time that foreign producers have had great success in penetrating the U.S. market. In the case of **leather footwear, imports have increased their share in total U.S. consumption from 4.3% in 1960 to 71.3% in 1984,** displacing domestic manufacturers from the market. In consequence, if the adverse economic impacts of the bill over the different manufacturing sectors are added to the previously estimated effect upon the apparel industry, total damages to the Puerto Rican economy|s ability to generate income and employment would certainly be larger than what was previously estimated in the report.

CONGRESSMAN CHARLES B. RANGEL
TESTIMONY FOR PUBLIC HEARINGS
BEFORE THE SUBCOMMITTEE ON TRADE
ON H.R. 3101, THE CARIBBEAN BASIN
ECONOMIC RECOVERY EXPANSION ACT OF 1987

In 1983, this nation demonstrated its commitment to promoting democracy worldwide through the enactment of the Caribbean Basin Economic Recovery Act (CBI). By guaranteeing U.S. trade access, the CBI embodied our effort to contribute to Caribbean political stability, social tranquility and economic development. In this light, I welcome the opportunity to testify on H.R. 3101, the Caribbean Basin Economic Recovery Expansion Act of 1987 (CBI II), which strengthens and reaffirms American commitment to this region.

Consistent U.S. support of incentives for investment in the Caribbean is vital to maintaining our national security interest and minimizing the long-run economic burden on the nation. As lawmakers, we have an active concern in regional stabilization when 50 percent of our trade--including most of our oil exports, travels across Caribbean shipping lanes such as the Panama Canal. Moreover, the economic status of the Caribbean Basin directly impacts our domestic policy responsibilities. With unemployment rates as high as 40 percent and the limited access of Caribbean goods to world markets, the poor in that region are often forced to seek jobs on our shores or to grow illegal drugs for sale in our country just to insure their basic survival.

The Caribbean Basin is the second largest source of illegal immigrants entering the country and the primary source of illicit narcotics. The burden of Caribbean economic difficulties are clearly displaced, in part, on to American shoulders through the social and economic costs required to manage the immigrant and illegal drug problems they impose.

Continued insurgency in Central America, however, has demonstrated that the struggle against this poverty, and the increased potential for communist influence which it brings, is not addressed by repeatedly sinking tax dollars into military aid. Instead, CBI II reinforces the message that democracy and free enterprise can ensure adequate living standards and social stability for our Caribbean neighbors. Through economic growth, genuine democratic systems can and will foster equality of opportunity for all citizens.

Over a year ago, those of us who served on the Ways and Means Subcommittee on Oversight under the Chairmanship of Jake Pickle, recognized that the provisions of the CBI needed to be examined to enhance economic gains in the region. We wanted to insure that all other federal trade laws would incorporate congressional intent that the CBI not be weakened and to ascertain the need for legislation to amend the CBI. After holding oversight hearings and visiting the region, the Subcommittee released a report outlining our recommendations for legislation to strengthen CBI.

The Pickle report seeks a significant impetus to the Caribbean economies by expanding CBI benefits through limited duty-free treatment of certain goods, extending the CBI expiration date, enacting a special rule-of-origin for Eastern Caribbean products, and separating injury determination for CBI countries in unfair trade practice cases. We also recommend that the Reagan Administration increase its efforts to encourage private investment as well as coordination of international initiatives in the Caribbean Basin. Furthermore, the Pickle Report contends that continued technical assistance and review of the U.S. sugar program is essential to further regional development.

Although CBI has sparked some new investment and diversification of exports, it has only been afforded limited success. Its effectiveness has been undermined by certain U.S. trade restrictions which generate uncertainty about continued access to the U.S. market, thereby inhibiting trade and trade-related investment in Caribbean states. Given that petroleum products and textiles account for more than half of all exports from the Caribbean to the U.S., the exclusion of these goods from the free trade provisions of the CBI ignored the adverse effect it would have upon new economic growth. CBI II necessarily fortifies the original legislation by implementing limited duty-free treatment of goods previously ineligible for this benefit.

Repeated restriction of U.S. import quotas on sugar have further wounded economic development in the Caribbean region. While affording domestic producers prices three times as high as world prices, tighter U.S. quotas persistently deplete Caribbean export earnings from sugar. In February 1987, U.S. sugar import quotas were slashed by 41 percent. Moreover, the sugar quota for the Dominican Republic has been cut by 45 percent since 1983. Although quotas result in higher prices for Caribbean sugar in the U.S., low quota amounts have resulted in less U.S.-based export earnings and a 28 percent decline in prices available for Caribbean sugar abroad.

H.R. 3101's restoration of sugar quotas to 1983 levels for CBI countries would allow economic growth in this major Caribbean export area while possibly aiding the American sugar industry and consumers. More liberal quota levels would mean lower U.S. sugar prices for consumers. Although some displacement would result, lower U.S. prices would also help curtail the level of surpluses that would result as domestic production exceeds domestic sugar consumption under the present price support program.

Still, tariff restrictions imposed after the implementation of CBI in 1983 have thwarted the expansion of non-traditional Caribbean exports. New trade and investment initiatives have been met with sudden changes in U.S. policy or with countervailing duty and anti-dumping unfair trade practice cases in the U.S. After encouraging investments in the region in ethanol production facilities, for example, Congress adopted an unfortunate amendment to the Tax Reform Act of 1986 that would effectively bar ethanol production in the region. I am supporting efforts to lift this restriction in other legislation passed by the committee. The cut flowers industry is another example in the Caribbean where investment has been sparked by CBI. But in 1986, a 46 percent duty was imposed on Costa Rican cut flowers after protest by domestic interests. In line with the Pickle Report, CBI II provides a separate injury determination for Caribbean Basin countries because of the low likelihood that the small volume of Caribbean products imported in the U.S. will actually injure domestic production of similar goods.

Spurring economic growth in the Caribbean through liberalized trade restrictions will have only a minimal impact on U.S. industry and consumers. The United States International Trade Commission reports that total U.S. imports from CBI countries in recent years has been less than 0.3 percent of the U.S. gross national product. Moreover, less than 3 percent of 1983 imports from these countries received duty-free treatment and less than 6 percent of 1986 imports benefited.

If we couple this minimal impact on industry and consumers with the potential of the Puerto Rican investment tax credit to further solidify Caribbean development, it is clear that we must immediately move ahead with CBI II.

Section 936 of the Tax Reform Act of 1986 is the magnet needed to sustain substantial investment the Caribbean Basin. The Tax Reform Act of 1986 modifies the definition of qualified possession source investment income (QPSII) to allow the Government of Puerto Rico to fully implement its initiative to increase investment and employment in qualified CBI countries. Given gains in manufactured product exports from Caribbean to the U.S. due to the enactment of CBI, such investment income is essential to the region's infrastructure development and for productive investment in the plant and equipment needed for implementation of manufacturing operations based upon the twin plant concept. Since 1983, manufactured product exports from the CBI area to the U.S. rose from $657 million in 1982 to $1.2 billion in 1986. Also, twin plant projects, where manufacturing process is divided between a Puerto Rico plant and a different plant in another CBI nation, have made encouraging gains. In

1986, 29 such projects were initiated, bringing $41 million in investment and more than 5,000 new jobs to the Caribbean region.

I believe that Puerto Rico and the democracies of the Caribbean region are natural economic allies and I have encouraged the active use of Section 936 funds for productive investment in plant and equipment needed for implementation of manufacturing operations based upon the twin plant concept.

Whether it is in infrastructure development utilizing Puerto Rican raw materials, or twin plants complementary to Puerto Rican manufacturing activity, the investment and products created by this symbiotic relationship will enhance the promised benefits of the CBI.

Thus, the time is ripe for action by this committee and the Congress to strengthen the CBI. By enacting the provisions of CBI II we will evidence our commitment to the development of the region to meet human needs and promote democracy. It is in our national interest to act now.

STATEMENT OF THE

TRADE REFORM ACTION COALITION

This statement is submitted on behalf of the Trade Reform Action Coalition (TRAC), which includes member organizations that account for more than $350 billion in annual sales and employ well over 5 million workers.* TRAC takes no position on the Caribbean Basin Initiative (CBI) or on H.R. 3101 as a whole. Individual TRAC-related groups have already testified on H.R. 3101 as a whole and how it could impact their industries. This statement addresses only Section 8 of H.R. 3101 -- that part dealing with "cumulation."

More than four years ago, the Trade Reform Action Coalition took the lead in calling for a trade law amendment that would direct the U.S. International Trade Commission (ITC) to "cumulate" (i.e., aggregate) unfairly traded imports from different foreign suppliers in determining "material injury" in antidumping and countervailing duty cases. In October 1984, the Congress responded by including a cumulation amendment in the Trade and Tariff Act of 1984, which President Reagan signed in November of that year.

The House Ways and Means Committee understood in 1984 why it is necessary to cumulate -- without exception -- unfairly traded imports from multiple sources. In that year, it stated that "the practice of cumulation is based on the sound principle of preventing material injury which comes about by virtue of several simultaneous unfair acts or practices. The Committee amended the criteria to permit cumulation of imports from various countries that each account individually for a very small percentage of total market penetration but when combined may cause injury."

The Committee wisely made no cumulation exception in 1984 for "negligible" imports, for imports from Caribbean Basin Initiative (CBI) countries or for any other kind of imports. No exceptions were made, because the logic of cumulation demands that, when imports are unfairly traded -- regardless of how small they are from each individual source or where they come from -- the only important factor is to assess whether they act collectively to have an injurious, hammering effect on the domestic industry.

The Trade Reform Action Coalition supported the Committee's view on cumulation in 1984, and we fail to see how the logic of cumulation can change from 1984 to 1987. The point at issue today is a simple one: should we allow any exceptions (e.g., for political reasons or ease of administration) in deciding whether to cumulate unfairly traded imports in antidumping and countervailing duty investigations? We believe the answer must be no.

Section 8 of H.R. 3101 provides a special cumulation rule for CBI countries whose unfairly traded imports are subject to investigation in antidumping or countervailing duty cases. Instead of requiring cumulation of unfairly traded imports from CBI countries (subject to investigation) with unfairly traded imports from non-CBI countries (subject to investigation) as the 1984 law mandates, it would only permit cumulation of unfairly traded CBI imports as a group. It therefore creates a separate injury determination track for CBI countries that allows unfairly traded CBI imports to be cumulated only with each other.

This special rule flies in the face of the entire logic of cumulation; it is contrary to the views expressed by the Committee and the Congress in 1984; it dilutes and weakens the 1984 cumulation language; it sets a dangerous precedent that could lead to the further dilution of the 1984 language; and it will inevitably result in increased injury to domestic producers. Accordingly, we strongly oppose Section 8 of H.R. 3101.

In August of this year, less than two weeks after H.R. 3101 was introduced, we put out a short statement explaining our general view on why "U.S. Trade Laws Must Apply Fully To All Countries." This statement reads:

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* All individual TRAC-related groups may not agree with every detail of this statement, but all support its basic thrust.

> "The Trade Reform Action Coalition (TRAC membership attached) is essentially a single-issue coalition -- formed not only to help preserve, but to strengthen U.S. trade laws. As such, TRAC generally takes no position on trade policy issues such as the Caribbean Basin Initiative (CBI) or the proposed Free Trade Area (FTA) with Canada. We do take a position, however, when U.S. trade laws are potentially harmed by such trade policy initiatives.
>
> Our position on the issue of U.S. trade laws in the context of trade preference agreements (e.g., CBI and FTA with Canada) is clear: there should be absolutely no dilution of the right of U.S. petitioners to file and pursue trade cases under U.S. laws against any foreign country or producer and absolutely no restriction on the applicability of U.S. laws when any trade cases are filed by U.S. petitioners.
>
> The rationale behind our position is equally clear: if producers in trade preference countries are granted exemptions from, or given more favorable treatment under, U.S. trade laws, domestic producers lose a vital defense against unfair or injurious trade practices by producers in those countries, and any dilution of U.S. trade laws could set a precedent that might open the door to a further weakening of U.S. laws.
>
> The Trade Reform Action Coalition therefore opposes giving the CBI countries, Canada or any other country special treatment under U.S. trade laws. Given this basic position, we would oppose any limitation on Section 201 relief or any weakening of U.S. antidumping or coutervailing duty laws with respect to Canada, and we would likewise oppose any limitation on 'cumulating' imports from CBI countries in determining injury under our antidumping and countervailing duty laws."

Exceptions to cumulation -- such as the one for "negligible" imports in the pending omnibus trade bill (H.R. 3) and Section 8 of H.R. 3101 -- do not strengthen the 1984 cumulation language, as we believe should be done. Instead, such amendments dilute the progress achieved in 1984 by giving special treatment to some dumped and subsidized imports that allows them to escape the cumulation process required under current law. In so doing, they constitute a step backward from what the Congress is trying to do today: enact stronger U.S. trade laws against dumped and subsidized imports.

The Trade Reform Action Coalition greatly appreciates the ongoing efforts of the House Ways and Means Committee to strengthen U.S. antidumping and countervailing duty laws. We strongly support these efforts. At the same time, we must oppose legislation that moves in the opposite direction.

TRAC is grateful to the Trade Subcommittee for this opportunity to submit our views on an issue of considerable importance in both H.R. 3101 and H.R. 3.

Alliance of Metalworking Industries
Amalgamated Clothing and Textile Workers Union
American Apparel Manufacturers Association
American Brush Manufacturers Association
American Chain Association
American Cutlery Manufacturers Association
American Die Casting Institute
American Federation of Fisherman
American Fiber, Textile, Apparel Coalition
American Furniture Manufacturers Association
American Gear Manufacturers Association
American Institute of Steel Construction, Inc.
American Iron and Steel Institute
American Metal Stamping Association (Wasner Division
American Mushroom Institute
American Pipe Fittings Association
American Textile Machinery Association
American Textile Manufacturers Institute
American Wire Producers Association
American Yarn Spinners Association
Anti-Friction Bearing Manufacturers Association
Automotive Service Industry Association
Association of Die Shops International
Association of Steel Distributors
Association of Synthetic Yarn Manufacturers
Bicycle Manufacturers Association of America, Inc.
Brass and Bronze Ingot Institute
Carpet and Rug Institute
Cast Iron Soil Pipe Institute
Cast Metals Association
Clothing Manufacturers Association of America
Committee on Pipe and Tube Imports
Copper and Brass Fabricators Council, Inc.
Cutting Tool Manufacturers Association
Expanded Metal Manufacturers Association
Footwear Industries of America, Inc.
Forging Industry Association
Group of 33
Hand Tools Institute
Industrial Fasteners Institute
Industrial Perforators Association, Inc.
Industrial Unions Department, AFL-CIO
International Ladies' Garment Workers Union
International Leather Goods, Plastics and Novelty Workers Union
Investment Casting Institute
Iron Castings Society
Knitted Textile Association
Lead-Zinc Producers Committee
Luggage and Leather Goods Manufacturers of America, Inc.
Man-Made Fiber Producers Association, Inc.
Metal Cutting Tool Institute
Metal Treating Institute
Metalworking Trade Coalition
National Association of Chain Manufacturers
National Association of Hosiery Manufacturers
National Association of Pattern Manufacturers
National Association of Uniform Manufacturers
National Cotton Council of America
National Foundry Association
National Knitwear Manufacturers Association
National Knitwear and Sportswear Association
National Tooling and Machining Association
National Wool Growers Association
Neckwear Association of America
Non-Ferrous Founders' Society
Northern Textile Association
Outdoor Power Equipment Institute
Plumbing Manufacturers Institute
Scale Manufacturers Association, Inc.
Steel Founders' Society
Steel Plate Fabricators Association, Inc.
Steel Service Center Institute
Synthetic Organic Chemical Manufacturers Association
Textile Distributors Association, Inc.
Tool and Die Institute
U.S. Battery Trade Council
U.S. Business and Industrial Council
U.S. Fastener Manufacturing Group
Valve Manufacturers Association
Welded Steel Tube Institute
Work Glove Manufacturers Association

THE CARIBBEAN BASIN ECONOMIC RECOVERY EXPANSION ACT OF 1987

by JIM SOUTHNERLAND

UNITED STATES VIRGIN ISLANDS

As we all recognize, it is in the best interest of the United States to do everything it can to insure a healthy and growing economy in the Caribbean Basin: a stable social and political environment must be maintained in this strategic area. It is just as vital to be sure the United States territory within the eastern portion of this basin holds the stars and stripes high for all to see. This is the best symbol of U.S. leadership and a clear message to all the countries of this fragile region of our commitment to preserving freedom and guaranteeing democratic principals.

I want to assure this Committee of the support in the United States Virgin Islands for expanded assistance in economic growth for the people and countries who make up our brothers and neighbors in the Caribbean. The eastern ring of the basin probably has the greatest difficulties in generating economic growth, thus they will require more patience and longer sustained assistance to achieve upward mobility.

The business community, the Virgin Islands education facilities and our government are committed to assisting in any way possible in assisting our federal government achieve success in this endeavor.

These Caribbean nations look to the United States Virgin Islands as one of them. This advantageous position should not be left to slowly twist in the wind and die. I strongly urge the Congress of the United States to make the greatest use of this resource possible. It will be a great folly and fool-hearted to do otherwise. I say this knowing that if history repeats itself, this asset will be overlooked again. You must not let this happen.

Having indicated the strong support and the opportunity to use this insular possession to expand the economic recovery of the Caribbean, I must state as strongly as I know how, the United States Virgin Islands' economic growth cannot be ignored in the process. The islands comprising the United States in the eastern Caribbean also have a very fragile economy but must compete with our neighbors for markets while having high labor cost, EPA requirements to meet and OSHA regulations which do not exist in our neighboring islands.

Traditionally the United States Virgin Islands have enjoyed special considerations because of these extenuating circumstances. House Resolution 3101 has already taken a swipe at our duty free shopping advantage for U.S. tourist. The U.S. Virgin Islands have always maintained a 2 to 1 margin of duty exemption; this bill gives an across the board additional $200.00 exemption to all Caribbean islands, including the United States territory. The U.S. islands have lost this advantage with this legislation.

Historically products of the United States Virgin Islands have been accorded unlimited access to the U.S. markets under Headnote 3(a) of the U.S. Tariff Schedule. However, in the 1986 Tax Reform Act one product of the U.S. Virgin Islands (Ethanol) was slapped with the same restrictions as that of a foreign country. At this point let me make it clear, the United States Virgin Islands are not foreign and the U.S. citizens of these islands deeply resent this type of arbitrary action by the Congress of their United States. The time is at hand and this bill is the vehicle: this misdeed in the Tax Reform Act of 1986 must be corrected. The United States Virgin Islands are a part of the Caribbean Basin emotionally as well as geographically and this will signal the other Caribbean islands that the U.S. is serious about insuring the stability of this region.

Under the Tax Reform Act of 1986 specific Caribbean feedstock requirements were established in order for ethyl alcohol used for fuel blending to enter the United States duty-free from the United States Virgin Islands. In 1987 there was a 30% feedstock requirement, however, beginning in January 1988 that jumped to a 60% requirement. This resulted in one plant ceasing operation and construction on a second plant to be halted. This cost jobs and reduced the tax base of a fragile insular economy. Just so you understand the economics of this feedstock requirement let's look at the numbers. CBI feedstock is not readily available and in the Virgin Islands it cost $4.00 per gallon and after processing adds another 40-cents to the cost it is difficult to break even when that gallon of ethanol sells in the U.S for a top of $1.20 and most of the time in the $1.05 range.

I recommend that the Tax Reform Act of 1986 be amended for the United States Virgin Islands as follows:

> Ethyl Alcohol for fuel blending, produced in the United States Virgin Islands, shall be exempt from the feedstock requirement of the Tax Reform Act of 1986 for a period of 12 months beginning on the date of enactment of this act.
>
> During this exempt twelve months, all plants in the United States Virgin Islands, operating under the provisions of this act, must begin construction of grain fermentation units, plans of which must be filed with the Virgin Islands' Department of Economic Development and Agriculture and the Industrial Development Commission for verification. At the conclusion of this exempt period, all ethanol producing plants shall have operational grain fermentation facilities with a capacity for no less than 30% of the plant's total rated ethyl alcohol production capacity.
>
> At the termination of the 12-months exempt period the fermentation facility must be operational and producing at least 30% of the ethyl alcohol imported into the U.S. Customs Zone for fuel blending. Then, all ethyl alcohol from the United States Virgin Islands shall enter enter the United States under General Headnote 3(a) of the Tariff Schedule of the United States.
>
> It is hereby established, as a trade policy of the United States with its insular territory of the Virgin Islands, that only U.S. produced grain shall be used in fermentation of ethyl alcohol in the U.S. Virgin Islands. However, in the event suitable surplus U.S. grain, from time to time, does not exist the ethyl alcohol fermentation facilities in the United States Virgin Islands shall not be restricted from purchasing suitable grains on the international markets.

In conclusion, I want to make it clear that we in the United States Virgin Islands are firm in our convictions that we as citizens of the U.S. and these islands as possessions of the U.S. must be an integral part of any successful policy and program for economic expansion in the Caribbean. We are just as certain that the Congress must deal with the United States Virgin Islands fairly and justly. Congress must not damage the economic and social structure of these islands while offering assistance to our fellow members of the Caribbean community. This will produce a policy that will be a hollow mockery and will cause an erosion of U.S. good will in this part of the western hemisphere.

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September 15, 1988

Tourism Aspects of the Caribbean Basin Initiative

Subcommittee on Trade
House Ways & Means Committee

by Bruce Zagaris*

I. Introduction

In February, 1986, at the request of the Subcommittee on Oversight, House Ways & Means, I prepared testimony on the subject of the tax information exchange agreements (TIEAs). One thesis was that, to improve the incentive to conclude TIEAs, Congress should enhance the tourism benefits of the TIEAs--the convention deductions. On April 23, 1987, Congressmen Rangel and Guarini participated in a program on Caribbean Tourism that I organized and moderated as chairperson of the Committee on Caribbean Law, Section of International Law & Practice, American Bar Association. My suggested legislative language on tourism appeared in Appendix G.5 to the The Report on the Committee Delegation Mission to the Caribbean Basin and Recommendations to Improve the Effectiveness of the Caribbean Basin Initiative, published on May 5, 1987. On December 1, Congressman Bill Nelson, chairman of the Congressional Caucus on Tourism, participated in a roundtable on Caribbean tourism policy that I organized and moderated at the Miami Conference on the Caribbean.

Tourism is the number one or two foreign exchange earner and sector for all the Caribbean countries. Tourism and travel are the principal, if not only, ways that American citizens have to understand the critical issues that face our neighbors to the South. By expanding the Caribbean Basin Initiative (CBI) to include tourism and travel, our Government can create and facilitate a new horizon of opportunities for economic growth in our own country and the region, as well as cultural and political understanding of our citizens. The inclusion in CBI-2 of a higher duty-free allowance is a small step in the direction of including tourism; many bolder steps can be taken. In this regard, attached is an article I coauthored entitled, "Tourism: The Orphan of Caribbean Programs," XXVI JOURNAL OF TRAVEL RESEARCH 24-28 (No. 3 Winter 1988).

II. Explicit Recognition of Travel and Tourism as Part of CBERA

My recommendations to Congress on this bill are in two parts. The first meets the political reality. Congress does not appear to be in the mood to increase trade preferences or even foreign assistance. On the contrary, Congress has just enacted a trade law to level the playing field, has graduated countries from the Generalized System of Preferences and has slashed foreign assistance. Hence, the first recommendation is designed to meet this reality. The proposed amendments do not cost money and should even result in tangible rewards for our country. Most importantly, Congress can strengthen travel and tourism within the Caribbean Basin Economic Recovery Act by four small noncontroversial sections. The first would provide that the health and growth of the CBI countries be tied to tourism. It would state the link between economic growth, tourism, jobs, training, hard-currency investment opportunity and the need of the CBERA to recognize the role of tourism in the economies of the CBI. The second section would provide that the United States Trade Representative (USTR) and Secretary of Commerce should encourage and provide technical assistance by competent agencies of the U.S. Government to any eligible beneficiary country, for the establishment of tourism training and educational programs. The third section would require the Secretary of Education to encourage and assist the development of cooperative educational programs between educational institutions in the U.S. and any eligible beneficiary country to educate individuals for tourism careers. The fourth section would require the Agency for International Development to investigate and report to the Congress on the interrelationship between economic development and tourism.

The inclusion of the above mentioned four sections would overcome the prior arguments of persons who have incorrectly and narrowly interpreted the National Tourism Act, 22 U.S.C. §2121 et seq., so that the United States Travel and Tourism Administration (USTTA) cannot render any assistance whatsoever to tourism from the U.S. to the Caribbean.[1]

The amendments will also enable the Executive Branch, especially the

USTTA, United States Trade Representative (USTR), and the United States Department of Commerce (DOC) to cooperate with U.S. State Governments, regional councils, and the private sector in strengthening Caribbean travel and tourism. Already states such as Florida and Texas have recognized the benefit of concluding tourism agreements with countries in the Caribbean. Local governments, such as the City of Miami and New Orleans, have Caribbean economic programs. Other state and local governments have sister-city relationships with Caribbean states. The federal government, using people knowledgeable about tourism, in agencies such as USTTA and DOC Caribbean Division, can provide ideas and assistance to others.

The educational and training aspects are especially important in Caribbean travel and tourism. Inadequate training and management is a key factor that requires improvement before small Caribbean hoteliers reach profitability. Many U.S. educational institutions would relish the opportunity to interact in some way with Caribbean tourism organizations. Not coincidentally, education and training are the key ingredients that the U.S. tourism sector will require if it is to compete successfully with its more sophisticated and experienced rivals in Europe.

Priority should be given to assisting Caribbean tourism training programs [i.e., the Bahamas Hotel Training College (BHTC) and the Caribbean Hotel Training Institute (CHTI)]. U.S. institutions of higher learning have programs that may be helpful to Caribbean persons. For instance, Caribbean professionals have expressed interest in the programs offered at several U.S. institutions, including the University of Michigan, the University of Las Vegas, the University of Hawaii, Cornell and Buffalo Universities in New York, Florida International University, and the George Washington University.[2] The programs would emphasize "train the trainers" and mid-level management training programs.

III. Additional Legislative Requirements

If Congress can view Caribbean travel and tourism in the broader context (see Section V below), it may want to pass additional amendments.

A. Exempting the Caribbean From Immigration User Fees

Since the enactment of the Caribbean Basin Economic Recovery Act (CBERA), rather than strengthening Caribbean travel and tourism, Congress has imposed non-tariff barriers, making travel from the Caribbean to the U.S. more costly. For instance, the enactment of the Immigration User Fee of 1986 makes travel from the Caribbean to the U.S. more costly. An exemption from the Act for CBI countries is appropriate just to maintain the status quo.

B. Improving the Operation of Section 936

This Committee, using its oversight authority, should ensure that Section 936 of the Internal Revenue Code is utilized for tourism and related services activities. Although the provisions of Section 936 allow for services activities, only manufacturing projects have materialized. Congress should require reports of the Puerto Rican Government and Treasury on the tourism and services projects generated by 936 funds.

C. 1992 Programs

In 1992, the celebration of the discovery of America by Christopher Columbus should coincide with the establishment of several festivals, programs, and packages to jointly promote travel and tourism to the Americas. Congress should pass a resolution commemorating the year and instruct the Caribbean Basin Inter-Agency Task Force to design programs. They should include joint programs to visit historic sites, summer festivals, and especially events to promote unique Afro-Hispanic, Afro-French, Creole, Dutch and Caribe-Indian cultures, to attract visitors worldwide. This program should be done in cooperation with the European Community, Canada, Japan, and the Latin American countries on the Caribbean Basin (i.e., Colombia and Venezuela). Congress should instruct the United States Information Agency to take a lead role. The program will require funding to achieve success.

D. Incentives for U.S. Investors in Tourism and Related Sectors

When President Reagan announced the CBI, a major plank was to stimulate U.S. investment through investment tax credits. Congress did not enact such credits even though they were available for U.S. persons investing in the U.S. If Congress enacts investment tax credits again, they should be available for the Caribbean, so that the law meets the rhetoric of "an even playing field" for U.S. and foreign investments. Additional tax incentives should be provided under Sec. 861 and the regulations under Sec. 1.861-8 to U.S. firms wanting to engage in research and development in the CBI beneficiary countries. Tax incentives should be provided especially to U.S. persons who spend time in the CBI beneficiary countries to work in the visual and performing arts. Other tax incentives should be provided to retirees who want to spend time in CBI beneficiary countries.

IV. Tourism Agreements

Tourism agreements are another potential mechanism for strengthening tourism and travel; these agreements (discussed on p. 25 of Appendix 1) work best in conjunction with cultural agreements. They require no legislation, only a decision by the Executive to implement its rhetoric about developing cooperation with the Caribbean. Congress and this Committee should take a leadership role in promoting such agreements.

V. Developing a Program for Caribbean Tourism and Travel

The failure of the United States to include travel and tourism within its Caribbean economic programs, and particularly within the Caribbean Basin Economic Recovery Act, reflects the lack of awareness of the importance of travel and tourism as both an economic engine and a diplomatic force. An integrated services-sector approach, especially focusing on tourism and culture, can be the impetus to economic development and diversification in the Caribbean.[3] Unfortunately, the CBERA and U.S. assistance policies in the region do not sufficiently provide for them.

A. Expanding Our Own Tourism Market

From a tourism perspective, many travelers who are interested in visiting the Americas are often also interested in a second or third cultural experience as well. The desire for multicultural experiences applies especially to long-stay tourists. If they can visit the Caribbean along with another destination, such as Miami, New Orleans, Atlanta, New York, or Washington, they will fulfill their goals. Hence, many travelers and tourists to the Caribbean have a direct positive impact on United States productivity and employment.

B. Expanding Our Own Tourism-Related Exports

Despite the direct positive impact on the U.S. economy when Caribbean travel and tourism grows, and despite recent pleas by Caribbean Governments and Caribbean tourism organizations for the U.S. to cooperate, the United States Government has turned a deaf ear on such pleas. The United States economy has also missed indirect economic benefits from Caribbean travel and tourism. Conversely, the European Community (EC) has recognized the potential and viability for tourism and travel. Under the Lomé Convention the EC has given financial assistance to projects in the following categories:

Lomé I

- Tourism planning & marketing
- Hotel development
- Development studies
- Tourism development (loans)
- National plans
- Technical assistance & training

Lomé II

- National parks & wildlife conservation & management
- Human resources development
- Risk capital/hotel development
- Technical assistance
- Development feasibility studies
- Marketing, promotion, literature
- Integrated programs involving people/product/market development & integration
- Supply, demand studies

In addition, the EC has provided technical assistance to the Caribbean in the following areas:

1. policy definition for the sector and analysis of economic significance of tourism;
2. organization/marketing and audit studies;
3. preparation of action plans;
4. preparation of programs and projects for donor consideration;
5. liaison with ministries, tourism boards, airlines, tour operators;
6. organization of seminars, training workshops and related activities;
7. arranging for specialist, high-level skills for short assignments and supplemental work; and
8. generating cooperative efforts among tourism organizations and major donors.[4]

As a result of this cooperation, Europeans have started new air routes and package tours in the Caribbean. The European private sector is now developing links which will enable them to outcompete the private sector in the United States for Caribbean travel and tourism. In the future, Japanese, Australians, Saudi Arabians, Germans, and even North Americans will increasingly stay in European hotels and eat at European restaurants, with meals prepared from European agricultural resources, utilizing European food processors. They will increasingly take recreational trips in European-controlled boats and vehicles. In the end, the U.S. private sector will suffer from the Federal Government's lack of awareness about becoming involved in Caribbean travel and tourism.

C. Educational and Political Benefits of Caribbean Tourism

Our travel and tourism policy can, with a little planning and very few resources, educate our voters and leaders on the Americas, so that we can deal rationally with problems, whether they be drugs, immigration, communism, trade, or development. From a foreign-policy perspective, the United States misses many opportunities when it neglects Caribbean travel and tourism. Most United States residents and voters view the Caribbean as a series of sunny resorts with a rosy future and no problems. As a result, even enlightened members of Congress sometimes feel constrained to vote in support of Caribbean initiatives because of opposition from their constituents. If our voters, and even our policymakers, will have the capability of making decisions about countries whose histories, governments, and politics are diverse, they will require education. Most importantly, our government and institutions should become involved and encourage Americans to travel and interact with people in the Americas, because the friendship and understanding will light a torch which will set aglow the dynamism of personal and cultural interaction. The common bonds we already share with our neighbors in the Americas come from migrations of people to the Americas, and transference of the ideals of the Enlightenment. As we celebrated the bicentennial of the United States Constitution with our hemispheric neighbors, the common threads of our political and legal heritage came into focus. These need not be our only bonds. We should expand travel and tourism, and also cultural activities, in the visual and performing arts as well as the humanities, and experiment with new and imaginative approaches in the Hemisphere.

D. Establishing a "Cultural Corps" within the "Peace Corps"

Our Government should appoint creative people as cultural officers in the U.S. embassies and form a cultural corps on the pattern of the Peace Corps. We should attract our best young creative minds to arrange for youth festivals to tour the hemisphere and encourage the production of folk art for export to the United States. If the United States Government does not allocate the some of its budgetary resources in the region to promote the exchange of people for travel, tourism and culture, then the development, and other problems that foster instability, violence, and anti-democratic trends in the Americas, will continue. One only has to read reports of the needs of our Hemisphere from every U.S. Administration since Franklin Delano Roosevelt, to understand the need for our own Government and institutions to do more to foster personal and cultural exchanges in the Americas. Once our youth have spent time in the cultural corps in the Americas they will be better equipped, when they return to the hollows of West Virginia or the mountains of Idaho, to develop travel, tourism and cultural development programs in their own regions.

Summary and Conclusion

Congress can help stimulate Caribbean tourism and travel through legislation, through its oversight role, and through its influence on U.S. industry and on Caribbean policymakers and industry. We congratulate the members of this Committee that have been involved in assisting Caribbean tourism and travel, and thereby assisting the many people in the U.S. economy that benefit. By concentrating on the appended amendment to H.R. 3101 and encouraging the Administration to take some of the above mentioned steps, this Committee and Congress will have contributed significantly. We will continue to work with this Committee in its formulation of Caribbean policy.

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[1] 1981 U.S. Code Congressional and Administrative News, p. 1560. The legislative history states that the purposes of the Act are to aid the U.S. economy, to improve international balance of payments of the U.S., and to continue to be a source of cultural understanding. Id. at 1562.

[2] George Washington University has produced a video, entitled Tourism Development in the Caribbean: The Policy Challenges Ahead," in which a Caribbean Ambassador, the Director of Caribbean Tourism Association (CTA), a representative of the Caribbean Hotel Association, and others participated. The video program has been well received in the tourism industry. It would be instructive for the members of this Subcommittee to view it.

[3] For a more comprehensive discussion of an integrated services-sector approach to economic development and diversification in the Caribbean, see Zagaris, speech "Economic Development and Diversification in the Caribbean, Caribbean Conference of the Global Economic Action Institute (GEAI), Heywoods, Barbados (April 26, 1988).

[4] Lee, "Tourism as a Factor in Development Cooperation," TOURISM MANAGEMENT 15-16 (March 1987).

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Tourism: The Orphan Of Caribbean Programs

BRUCE ZAGARIS AND LOUIS E. EMERY

This article proposes several means by which tourism in the Caribbean basin can be encouraged.

The fundamental purpose of the Caribbean Basin Economic Recovery Act (CBERA) is to foster a long-term plan, commonly called the Caribbean Basin Initiative (CBI), to help the nations of the Caribbean Basin develop the means to sustain a meaningful level of economic growth, with the resultant benefits to the social and political aspirations of the people of the region.[1] Similarly, the basic goal of CARIBCAN is to help Commonwealth Caribbean countries increase their economic relationships with Canada.[2] While the ultimate objectives offer little with which to argue, the means offered to achieve the ends have some serious drawbacks. One of the most important is the exclusion of the tourism industry from benefits under both programs. Donna F. Tuttle, Undersecretary of Commerce, and Hugh Hart, the Jamaican Minister of Mining, Energy & Tourism, have said that travel and tourism were just plainly overlooked and that there is not yet a strong lobbying group for tourism in the Caribbean.[3]

The primary benefit offered by both CBERA and CARIBCAN is a system of preferential treatment for goods imported into the United States and Canada from CBI or CARIBCAN, as the case may be (the goods must meet the criteria established under the applicable act). The rationale underlying this policy is that the private sector will be encouraged to invest in the qualifying countries in order to gain business advantage through the preferential trade benefits available under the program. One major flaw in this fundamental premise is that it fails to encompass the full scope of the development problem in the CBI countries. Given the breadth of the problem, this is understandable. However, and more importantly, it leaves tourism out of the formula. Tourism is a key area of growth which has the potential to contribute immediate gains and can play a crucial role in promoting the development of necessary infrastructure.

Besides the failure of the U.S. and Canada to incorporate tourism into their unilateral programs, international financial organizations also have traditionally refused to take tourism seriously and have failed to allocate the sector a portion of development funds.[4]

This is particularly unfortunate because many Caribbean countries have experienced severe declines in demand for mineral and agricultural commodities which often represented the chief source of export revenue, and tourism has emerged as a major source of foreign exchange revenue for Caribbean countries. In 1985, according to the data of the Caribbean Tourism Center, visitors spent $5 billion in the region and generated directly or indirectly some 278,000 jobs. While tourism traditionally has played some role in the economic systems of many Caribbean countries, its importance has increased dramatically during the last decade as primary commodities have declined.

The ascendancy of tourism relates not only to the growth of foreign exchange generated by tourism. There is a strong link between the overall goals of economic development and the growth of the tourism industry. Although the "raw materials" for the industry come free with the rise of sun and tides, exploiting the natural gifts of sea, sun, sky, and scenery requires substantial investments of time, capital, and human resources. The successful development of a thriving tourism industry requires coordinated development of many other segments of the economy and the social structure. The challenge facing the leaders of the Caribbean, friendly developed countries, and international financial organizations is how to increase tourism, upgrade its quality and variety, and diversify the product and markets to maximize benefits to the many sectors of Caribbean economies on which it can have beneficial impacts. This article discusses how the leaders of the Caribbean; friendly developed countries such as the United States, Canada, and the European Community; and international financial organizations (i.e., the World Bank, International Finance Corporation, Inter-American Development Bank.) can meet the challenge. Since the political realities do not permit all the leaders involved to recognize and then to act when constituents are pressing time for more protectionism, action is proposed which does not require just action by political leaders.

STRENGTHENING TOURISM INFRASTRUCTURE

A well developed infrastructure is necessary for any country intending to fully exploit the benefits to be derived from the tourism industry. This means creating or refurbishing port facilities and establishing and maintaining state-of-the-art air facilities, including runway, fuel delivery, airframe and engine maintenance, traffic control and passenger facilities. In addition, tourist accommodations must be both high quality

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and sufficiently available. High quality tourist accommodations promote the companion development of water, sewer, electric power, sanitation, and other systems necessary to support the industry. Further, an agricultural industry can be adapted to serve more closely the needs of the tourist industry. While local agricultural systems might not be able to fully supply the needs of a healthy tourism industry, the encouragement to develop local agricultural supply systems for targeted segments of the food requirements of tourism would serve as a base from which to expand to export markets for the same products.

After Congressional hearings in February 1986, Ambassador Yeutter, the U.S. Trade Representative and the head of the U.S. Caribbean Basin Initiative, had the foresight to ask the U.S. Travel and Tourism Administration of the Department of Commerce (USTTA) to become involved in helping Caribbean tourism. By allocating resources in the U.S. Government to assist the tourism sector, such involvement would help identify persons in the private sector, international organizations, and the U.S. Government who may be able to assist in improving the direct or indirect infrastructure aspects of the Caribbean. At present, USTTA clearly is the only agency with any expertise on tourism. Unfortunately, during the end of the 99th session Congress imposed a rider on the budget of USTTA which restricts it from using any funds on the promotion of travel and tourism outside the U.S., thereby blocking any possible compliance with Ambassador Yeutter's request. If the Administration and Congress would strengthen both the mandate and the resources for Caribbean tourism, the CBI and the U.S., especially the southeast and intermediate stopping points such as Miami, New York, Atlanta, and Washington, would benefit significantly. Even when viewed from a selfish, purely nationalistic perspective, a small investment of funds now to help encourage private industry in the tourism sector could save the U.S. taxpayers from considerably greater expenditures of money to rescue "Grenadas." A thriving tourism industry will most assuredly discourage the turn toward Marxist-communist regimes as a means to alleviate economic and social oppression.[5] Similarly, cogent arguments require the Canadians and the international financial organizations to integrate tourism into the core of their legislation and policy planning. Most importantly, assistance to Caribbean travel and tourism will strengthen economic and political self-sufficiency in the Caribbean while simultaneously building bonds between people from North America and the Caribbean.[6]

The 100th session of Congress could give a considerable boost to Caribbean tourism by making a small amendment to the CBERA which would consist of four small, noncontroversial sections. (1) The first would provide that the health and growth of the CBI countries are tied to tourism. It would state the linkage between economic growth, tourism, jobs, training, hard currency, investment opportunity and the need of the CBERA to recognize the role of tourism in the economies of the CBI. (2) The second section would provide that the United States Trade Representative (USTR) and Secretary of Commerce should encourage and provide technical assistance by competent agencies of the U.S. Government to any eligible beneficiary country for the establishment of tourism training and educational programs. (3) The third section would require the Secretary of Education to encourage and assist the development of cooperative educational programs between educational institutions in the U.S. and any eligible beneficiary country to educate individuals for tourism careers. (4) The fourth section would require the Agency for International Development to investigate and report to the Congress on the interrelationship between economic development and tourism.

TOURISM AGREEMENTS

A potential mechanism for promoting tourism would be the conclusion of agreements on the development and facilitation of U.S.-Caribbean tourism. The U.S. has these agreements with many governments. The agreements typically set forth the importance of tourism in strengthening good will, mutual understanding and economic relations between the two governments and their peoples. The agreements obligate the parties to facilitate the establishment and operation by each party of tourism and convention promotion offices in each other's territories, provide for assistance in conducting meetings, distributing information, coordinating advertising campaigns and engaging in promotional activities. Participation in trade shows and performing market research on tourism is encouraged under the agreements. In addition, the agreements usually obligate the contracting parties to work within international organizations to develop and encourage policies and practices to facilitate international tourism, including the provision of adequate air service between the treaty countries.

These types of agreements are particularly useful in that they encourage conventions in each territory, especially pertaining to educational, scientific, technological, professional, business, tourism, sociocultural matters. They also promote exchanges and mutual assistance programs under which the contracting parties can exchange tourism experts for short-term assignments, and encourage the identification of volunteer executives and instructors and professors of tourism who are eligible for sabbatical leave who would be available to provide instruction. They also obligate the parties to cooperate in conserving and managing natural and historic sites of national and international significance, and to develop new opportunities for commerce in tourism-related merchandise and for joint ventures in the construction and equipping of tourism facilities and infrastructure. They further provide for the encouragement of experts to exchange information on systems and methods to prepare teachers and instructors on tourism matters, particularly on conservation and restoration, hotel operation and administration, marketing, congress management, and other tourism services; tourism scholarships for teachers, instructors, and students; and curricular and study programs for tourism and hotel schools. Improvement and exchange of tourism statistics and research are encouraged in order to improve the reliability and comparability of such information about the tourism markets. Exchange of information on investment opportunities in the respective tourism sectors, the promotion of tourism, and the conservation of archaeological and cultural sites in each country are also contemplated. Each article of these agreements provides rich opportunities for cooperation.

The conclusion of such agreements would help not only federal and state governments, but also would aid non-profit and profit organizations in participating more actively in Caribbean tourism. While local officials are awaiting the leaders on the federal level to develop the necessary vision and fortitude to act, similar agreements could also be struck by state and large municipal centers. For instance, recently Miami and New Orleans have become involved in activities with the Caribbean and may well be able to contribute to some of the above activities, especially if they collaborate with organizations already involved (e.g., Louisiana State University, University of Miami, and Florida International University and the various Inter-American programs of these organizations).[7] Cities such as New Orleans and Miami have recognized that these activities bring jobs, and positive cultural and economic benefits.[8]

NATIONAL TOURISM POLICY

Caribbean countries should reevaluate their national policies which have an impact on tourism. Hugh Hart, the Jamaican Government Minister of Mining, Energy & Tourism, at his keynote statement on tourism at the Tenth Annual Conference on the Caribbean this year stated that part of the blame for lack of attention to tourism must be shared by Caribbean governments who have distrusted tourism's fragility of demand and by the disinclination of international organizations to discuss or support such activities.[9] Actions required by Caribbean governments involve planning for tourism, including redesigned national statistics to monitor tourism and reordering the educational systems to provide the training power, and developing adequate infrastructure; respecting and protecting the environment; and developing marketing capabilities.

CULTURAL EXCHANGES AND TRAINING

Training

Perhaps the most important element of a thriving tourism industry is the direct and indirect effect on employment. Recent reports have detailed the training required to support tourism in both the private and public sectors. If tourism training is essential for improving the skills of the persons working in the industry, tourism education—that is, a structured program aimed at changing behaviors in the society at large—is vital.[10] The direct employment which is necessary to serve the tourism industry is evident in jobs created at hotels, restaurants, shops, etc. which directly serve the tourist. However, in addition, jobs are created indirectly through the creation of the components of the infrastructure discussed above. Skilled and unskilled jobs at airports or ports, mechanics maintaining rental cars, artisans creating items sold in shops, farm workers, telecommunications employees, police, and all manner of other jobs must be created in order to serve the needs of the tourism industry. Of course, there also is the need to educate and train individuals for the jobs which need to be done. Hence more teachers, with varied skills, are required and there is sufficient enticement for students to continue the educational process. In short, the development of tourism spurs the development of many other segments of the economy and requires certain changes in the social structure.

The picture painted above is, of course, the ideal. Tourism cannot be viewed as independent of the other elements of basic development needs. Development of tourism as a chief source of revenue must go hand-in-hand with development of the social and economic infrastructure as a whole. Conversely, a focus on economic development which avoids the role of tourism in the Caribbean countries ignores a key element which can make it work and prosper.

Access to training programs should be encouraged and provided to persons in the Caribbean. Priority should be on developing indigenous training programs in the Caribbean (e.g., the hotel school in the Bahamas or regional training in cooperation with the Caribbean Tourism Research Centre or the University of the West Indies). These programs should be supplemented by tourism training in the U.S., such as the training at the College of the U.S. Virgin Islands. Fellowships should be provided for Caribbean persons to attend programs at the U.S.V.I. and also diploma programs at U.S. universities.

Cultural Exchanges

Even in those areas where successful development of the tourism industry has occurred, is in progress, or is currently contemplated, the role of cross-cultural exchange should be understood and encouraged. Too often tourism in the CBI area is perceived as a passive activity, i.e., that all the tourist wants to do is sit in the sun and drink rum punch. In part this is the result of promotional devices which have focused solely on the main attractions of sun and surf without any significant attempt to educate the tourist or potential tourist regarding the alternative activities available. Each country with an appreciable number of tourists should encourage tourists to participate in local cultural events and explore the history and culture of the country. This routinely happens when the tourist arrives in London or Paris, in part because the individual has been programmed to expect that to be part of the experience. This type of activity increases appreciation by the tourist of his or her experience because the immediate adventure is then tempered by an appreciation of what went into its making.

The friendly developed countries and international financial organizations ought to encourage the development of a pilot project immediately for study tours. Currently no comprehensive study tours are organized wholesale for the North American, European, or Japanese markets. From time to time professional organizations, such as law schools or architects, may organize their own programs. However, these programs are not coordinated on a regular basis or on a regional or international level. The study tours would enable a tourist to spend one or two days in a Caribbean country becoming educated about such aspects as local architecture; local and regional politics; the availability and nature of offshore financial services; local legal, accountancy and banking professions; the role of academics in local and regional educational systems (one program for higher education, a second for high school and grammar, and a third for technical institutes). In addition, it would be possible to develop study programs specifically designed to appeal to naturalists, historians, and the health care professions; high school and college study tour programs; programs oriented toward those with an interest in Caribbean music, literature, theatre and arts and crafts. In the summer these programs could be lengthened to one or several weeks. The University of the West Indies extramural department could serve as the host and its satellite teaching program could be used in the Eastern Caribbean.

The cultural exchange which should be encouraged to be a part of the tourist's experience should be developed independently through direct country-to-U.S. programs which encourage the exchange of information and experience between the Caribbean countries and the U.S. Part of the original consideration of the Caribbean programs included specific appropriations to fund scholarship and grant programs for study and training in the U.S., Canada, and Europe. These programs should be resurrected and expanded.

While the Presidential Scholar program is currently available in the U.S., by which individuals are selected and provided the opportunity for study in the U.S., programs should be explored to provide support for U.S. students and scholars to study in CBI countries as well. More than 45 research facilities and universities exist in the CBI region, with 350,000 students and 30,000 faculty members. This represents a tremendous resource that could be made available to U.S. citizens seeking to develop an understanding of Caribbean culture.[11]

Foreign assistance to cultural exchanges and the tourism industry is linked to assistance in the education and training of people needed to service the industry. Means should be made available to train Caribbean country citizens in the skills necessary to work in the tourism industry. These areas include computer science, hotel management, business management, development planning, public administration, environmental protection, transportation management, etc. Technical training and assistance, plus educational assistance, is an absolute necessity if the system necessary to support an active tourism industry is to work.

Organizations which deal with information (e.g., USIA in the U.S.) and the development agencies (e.g., USAID and CIDA) should work together with the U.S. and Canadian private sector through groups such as the Advisory Board and the U.S. Travel Caucus to develop programs and activities with their counterparts in the Caribbean, so that the most dynamic sector in the Caribbean will realize its potential.

Many of the linkages necessary to promote a thriving tourism industry can use existing organizations or programs. One chief example in the commercial realm is the Association of American Chambers of Commerce of Latin America. An organized and effective business community with links to other such entities provides a basis of experience upon which a new entrepreneur can draw for advice and assistance. This type of program can be effective on both country and regional bases. The use of pre-existing linkages, whether private sector or governmental, can facilitate the exchange of information and ideas, both of which are integral to the successful development and exploitation of a tourism industry.

Much can be done on a government-to-government basis to encourage and assist the development and expansion of the tourism industry in Caribbean countries. One of the primary areas where the U.S. could assist would be in information-gathering. A great deal of data is currently gathered and analyzed on those who travel to and from the U.S. This information is gathered under the auspices of several different U.S. governmental entities. It would be highly beneficial to provide the relevant data to the Caribbean countries, and also to provide the necessary technical assistance so that such data can be generated by the Caribbean countries themselves, or on a regional basis. There is a great need for reliable and accurate data on travel and travel trends. Such data are necessary for both planning and development purposes. Since there are precedents for cooperative ventures with other countries, notably Canada and Mexico, the Caribbean governments should explore the ways in which the data which are available can be obtained and utilized. In addition, cooperative programs could be developed so as to expand the scope of current data collection operations to include data specifically relating to the Caribbean Basin. There is, of course, also the possibility of entering into agreements with countries other than the U.S. which collect such data, e.g., Canada, the European Community (EC), etc. The U.S. Travel Data Center has an important potential role to play in assisting Caribbean governments and regional organizations in understanding and targeting the U.S. tourism market.[12] In the U.S. the USTTA and the private sector might work with Congress and USAID in making selected aspects of the Center's expertise available to the Caribbean.

MINIMIZING NEGATIVE IMPACTS OF TOURISM

Increased tourism does not have only positive aspects. Negative externalities can include increased pollution and the consumer-oriented values brought by tourists which may influence some of the local Caribbean persons to desire similar high-priced values and lead to increased expectations and crime. The demand for external media and entertainment also imposes a foreign culture on the Caribbean.

To combat these negative aspects, Caribbean governments are taking a more active interest in conservation of resources and control of pollution. The Caribbean Conservation Association, a regional organization based in Barbados, is taking a leadership role. Several donors, including USAID and CIDA, are assisting in environmental programs.

Integration of tourism and criminal justice sector planning is required to deal with the interplay between increased tourism and crime. The United Nations is playing the lead role in assisting with national development planning, but many Caribbean countries require more resources before the comprehensive and detailed sector planning can be adequately done.[13]

To counter the domination of regional media by external groups, the Caribbean Common Market and Community (CARICOM) and the heads of government have discussed taking a more active role in formulating a regional media policy. Issues of interception of satellite signals from North America and promotion of local culture are among the issues which require resolution. The media issues are linked to the need for enhanced education and cultural exchanges in the context of tourism.

BUILDING THE INTERNATIONAL COMPONENT OF CARIBBEAN TOURISM

A mechanism is needed to make tourism and travel incentives in the Caribbean multilateral. Many businesses outside the Caribbean, for example in South America and Asia, are interested only in investing in the Caribbean if the firm can penetrate markets other than just the U.S. market and if the firm can obtain financial and technical assistance from more than just the U.S. In tourism and travel as in the other areas of international trade and investment, the absence of any coordinated planning, other than in the context of the U.N., the Caribbean Group for Cooperation in Economic Development (an organization chaired by the World Bank and assisted by five other international agencies) and the Caribbean Project Development Facility (CPDF), the absence of multilateral organizations and multilateral activities make cynical the empty rhetoric of the U.S., Canada, the EC, and Japan. However, part of the blame must be shouldered by the Caribbean itself. Rather than having common marketing funds and common approaches to tourism, for the most part the countries compete. However, the Caribbean Tourism Research Centre, Caribbean Tourism Association, and Caribbean Hotel Association are the kernels of regionalism in tourism. It is difficult to expect that overnight the still politically maturing and resource-lacking regional organizations can blossom into a unified whole with a common approach. Rather, a multilateral institution, such as the Caribbean Group, Caribbean Project Development Facility (CPDF), the Economic Commission for Latin America (ECLA), the Organization of American States (OAS), or the Latin American Economic System (SELA) presents the best hope for common action. The common action should embrace national tourism policies, uniform legislation on conservation, historical sites and infrastructure, negotiating with international financial organizations and friendly developed governments, and marketing. Such goals are not beyond expectation even under current circumstances. For instance, the Action Committees of SELA could perform many of the needed functions.

The immediacy of the economic and development problems in the Caribbean dictates that action must be taken soon on the most promising, and proven, sector—tourism. Unilateral programs such as CBI and CARIBCAN should be expanded to include and promote the development and improvement of the tourism sectors of the Caribbean countries economies. In addition, the political leadership from the developed governments, international organizations, and the Caribbean must make multilateralism on Caribbean tourism a reality.

NOTES

[1] Pub. L. No. 98-67, 97 Stat. 384 (1983). For background to the CBI, see Zagaris, "A Caribbean Perspective of the Caribbean Basin Initiative," 18 Int'l Lawy. 563 (1984); for a discussion of the Administration's viewpoint of the CBI ideology and policy issues, see the address of President Reagan on the CBI to the Organization of American States, February 24, 1982, and the accompanying fact sheet released by the White House.

[2] For background on CARIBCAN, see Zagaris, "Canada's CARIBCAN: Another Incentive for Investment in the Caribbean," 2 Int'l Business & Trade L. Rptr. 23 (July/Aug. 1986).

[3] Tuttle, Under Secretary of Commerce for Travel and Tourism, speech at the 10th Caribbean Tourism Conference, Freeport, Bahamas, Sept. 4, 1986. Hon. Hugh Hart, Keynote Statement on Tourism at Tenth Annual Conference on the Caribbean, Miami, November 18, 1986.

[4] See Hart speech, no. 3.

[5] The same rationale is made for urging increased financial and economic assistance and increased investment by the U.S. for Central America. See Report of the National Bipartisan Commission on Central America 50-59 (Jan. 1984).

[6] See generally, Caribbean Tourism Research and Development Centre, "An Overview of Tourism as a Major Positive Force in Caribbean Economic Growth and Development" (Paper No. CTEC Reg. Tour 1, Oct. 10, 1986).

[7] For instance, Florida International University has several Caribbean programs and has published for some years the *Caribbean Review*, a quarterly publication on Caribbean cultural and policy matters. The University of Miami Graduate School of International Studies has an Institute of Interamerican Studies which has a series of programs and a journal. From time to time it publishes reports, such as The Miami Report: Recommendations on United States Policy Toward Latin America And The Caribbean (Dec. 1983).

[8] For instance, Miami each year hosts the Caribbean Conference, sponsored by the Caribbean Central America Action Group, while New Orleans and Louisiana have begun sponsoring Caribbean programs and regularly send delegations to the Miami Conference.

[9] See Hart speech, no. 3.

[10] For a discussion of the tourism training required, see Caribbean Tourism Research and Development Centre, Regional Tourism Public and Private Sector Training (Paper No. CTRC REG. TOUR 4 Oct. 10, 1986).

[11] For additional discussion on the potential role for educational and cultural exchanges, see The Miami Report: Recommendations on United States Policy Toward Latin America and the Caribbean 101-05 (1983). The Americas in 1984: A Year for Decisions (Report of the Inter-American Dialogue 58-60, May 1984).

[12] For additional discussion of the need to build the international component of the Caribbean programs, see statement of Zagaris and Papavizas, Review of the Impact and Effectiveness of the Caribbean Basin Initiative 486-87 (Hearings before the Subcommittee on Oversight of the Committee on Ways and Means, House of Representatives, 99th Congress, Second Session, Feb. 25 and 27, 1986, Serial 99-70).

[13] See Zagaris and Kamta, "The Beginnings of Criminal Justice Planning in the British West Indies," 10 Police Science Abstracts ii (No. 4 July/Aug., 1982).

BERLINER & MALONEY

PROPOSAL FOR AMENDMENT TO CARIBBEAN BASIN INITIATIVE

FROM: LOUIS E. EMERY AND BRUCE ZAGARIS

To provide support and encouragement for the economic and educational development of the Caribbean Basin countries through the strengthening and improvement of the travel and tourism industries under the auspices of the Caribbean Basin Initiative.

Be it enacted by the Senate and House of Representatives of the United States of America in Congress assembled,

"Subtitle D-Caribbean Tourism and Travel Industries

SEC. 241. Findings of Congress.

Congress has determined that the health and growth of the economies of the countries in the Caribbean Basin are intimately tied to the health and growth of the tourism and travel industries. While the development of multifaceted economies, which do not depend on any single industry, is to be encouraged and assisted; the importance of the tourism and travel industries cannot be overlooked. These industries provide, or have the potential to provide, important contributions to the overall health of the economies of the countries in the Caribbean Basin. They provide jobs, training, hard currency, and investment opportunity, as well as promote the development and improvement of many different components of the infrastructure of the host countries.

If the Caribbean Basin Economic Recovery Act is to successfully address the problems which hinder the growth of the economies of Caribbean Basin countries, then the important contribution which the tourism and travel industries make to the host countries' economies must be recognized. In addition, encouragement and support for additional development in these key industries must be utilized as a basis for further development of the overall economic and social systems.

SEC. 242. Technical Assistance.

The Secretary of Commerce and the United States Trade Representative shall encourage, and wherever possible assist with, the provision of technical assistance by competent agencies of the United States government to any eligible beneficiary country for the establishment of training and educational programs in the tourism and travel industries.

SEC. 243. Cooperative Educational Programs.

The Secretary of Education shall encourage, and wherever possible assist with, the development of cooperative educational programs between educational institutions in the United States and any eligible beneficiary country to educate individuals for careers in the tourism and travel industries.

SEC. 244. Tourism and Development.

The Administrator for the Agency for International Development shall investigate and report to the Congress on the interrelationship between economic development and the tourism and travel industries in the Caribbean Basin. Such report shall be made to the Congress no later than one year after enactment of this section into law."

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